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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-93-005

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27 January 1993

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## SOUTHEAST ASIA/PACIFIC

### Dispute With Vietnam on Spratlys Explained

93CM0113A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 20, 23 Oct 92 pp 6-8

[Comments on International Affairs by Ji Guoxing: "Peace Talk, Only Way For Equitable Settlement—Brief Discussion on Disputes Between China and Vietnam on Nansha Islands and Beibu Wan"]

[Excerpt] [Passage omitted] China is a signatory to the 1982 Law of the Sea. Although China has not yet ratified this law, it actively supports the principle for the 200 nautical mile continental shelf or the exclusive economic zone. As of now, China has not yet clearly defined the sphere of its 200 nautical mile continental shelf or exclusive economic zone because of political and geographical reasons. In order to protect its maritime rights and interests, China will improve its own maritime legal system. To clearly define the limits of the maritime space under China's jurisdiction, particularly to use what kind of specific legal system to determine its maritime space in South China Sea is a comparatively complicated issue. We must take into consideration our rights in history as well as the juristic factors. China's claim on the maritime space in South China Sea would doubtlessly duplicate those of some countries in Southeast Asia. This calls for efforts to properly settle this issue by holding negotiations and talks.

The Nansha and Xisha Islands have always been a part of China's territory. Chinese people were the first ones who discovered and administered the Nansha and Xisha Islands. This is fully proved by numerous Chinese historical records of several dynasties and unearthed cultural relics of modern times.

The Nansha and Xisha Islands were ownerless land before China discovered them. The fact that China discovered them first constitutes its preliminary right for its territorial claim. This preliminary right was further upheld by the Chinese activities to continuously develop and manage them for a long time and the administration of the Chinese governments of several dynasties to become a full-fledged and complete territorial sovereignty. Besides the discovery of these islands, China has also acquired their sovereign right by consecutively and peacefully demonstrating its state power. Cases and theories in international law believe that in dealing with uninhabited tiny islands in remote areas, requirements for de facto occupation and control can be lowered such as the East Greenland case, the Clipperton arbitration case and the Pulworth arbitration case. The situation of the Nansha Islands is similar to these cases. Therefore, from the angle of international law, the legal standing that the Nansha and Xisha Islands belong to China is indisputable.

Originally there existed no dispute between China and Vietnam on the issue of ownership of the Nansha and Xisha Islands. Until 1974, the Vietnamese Government

has always officially acknowledged in its statements, notes and openly published atlases and maps that the Nansha and Xisha Islands have been China's territory since ancient times. For example, Vice-Foreign Minister Ung Van Khiem of Vietnam received Li Zhimin, Charge d'Affaires ad interim of the Chinese Embassy in Vietnam, on 15 June 1956 and stated to him that, "according to Vietnamese data, the Xisha and Nansha Islands are historically part of Chinese territory." After 1975, Vietnam had made a 180 degree above-face turn in its stand, claiming that Truong Sa Archipelago (China's Nansha Islands) and Hoang Sa Islands (China's Xisha Islands) are Vietnam's territory. It also occupied, one after another, a total of 27 Nansha islands and coral reefs.

From the point of view of international law, the above-mentioned statement made by Vietnamese Vice-Foreign Minister Ung Van Khiem indicated that Vietnam had given up long ago its claim of its sovereignty over the Nansha and Xisha Islands. The international court believes that when the foreign minister of a nation answers a question within his or her functions and powers on behalf of the nation, this answer should bind the nation he or she represents. All international jurists agree on this point. Vietnam explained, the reason why it did in such a manner was that Vietnam needed China to support the Vietnamese struggle against the United States. This kind of explanation is invalid in international law. Besides, the Vietnamese war against the United States had not even started in 1956. Everyone knows that territorial sovereignty is something extremely sacred to every nation. No one can trade this with something else.

A major argument put forward by Vietnam is that Xisha and Nansha Islands were discovered by Vietnam, saying: "the Hoang Sa Islands were occupied by King Gia Long in 1816" and that "in 1834 when king Minming reigned, the Spratlys Islands (Nansha Islands) for the first time appeared on a Vietnamese map as a component part of its territory." The truthfulness of this saying is dubious. It is necessary to point out that Vietnam was a vassal state of China prior to 1875. Just as it was pointed out in the note of the Chinese Government to France: "When Vietnam adopted the so-called activities, Vietnam was a vassal state of China. As a vassal state, it had the audacity to occupy a piece of territory of its suzerain state. This runs counter to logic and common sense."

China's stand on the Nansha Islands is clear-cut. Their sovereignty belongs to China, and China will not accept some nations' armed encroachment as a fait accompli. Aggression cannot generate sovereignty. This is a basic principle of international law. In view of geographical and other specific situations, China is willing to hold talks to find a solution on the basis of the spirit of mutual understanding and mutual accommodation. When the time for holding talks to find a solution is immature, China suggests to shelve the dispute, while the countries concerned may jointly develop these islands and share the resources. When Premier Li Peng visited Malaysia in



mid-September of 1990, he had talked about the Nansha issue, saying: "The Nansha Islands are China's territory. This is indisputable. It involves an issue of China's sovereignty. China hopes to talk things over with the nations concerned at an appropriate time to tackle this issue. Prior to this, we can shelve this issue first."

To shelve the issue means to put aside the dispute among the nations concerned on the islands and on the delimitation of the relevant maritime space, to start developing the protection of sea environment and oceanic research and cooperating with each other on navigation safety and marine resources management first without touching upon the issue of sovereignty, and then to take further steps and make further arrangements to jointly develop and share the resources. Neighboring nations may form a joint venture. All these measures and arrangements will in no way affect the issue of sovereignty in the future. Once the issue of sovereignty is settled, new arrangements and readjustments can be made.

China suggests shelving the dispute and jointly developing and sharing the resources proceeds from its desire to maintain peace, stability and development in the Asian-Pacific Region. Southeast Asian nations are China's close neighbors. Maintaining a relationship of good neighborliness and friendship with the Southeast Asian nations is China's long-term strategic goal. By shelving the dispute, China hopes to prevent it from disturbing its friendly relations with the Southeast Asian nations in dispute. Shelving the dispute should be construed as an extremely flexible way of doing things suggested by the Chinese side. It demonstrates China's sincerity in promoting good neighborliness and friendship and maintaining a peaceful environment in the Asian-Pacific Region.

The Beibu Wan (Gulf of Tonkin) is a semi-closed sea surrounded by the land of Vietnam and China and China's Hainan Island. Aside from the fact that China and Vietnam administer the area within the extent of the territorial sea announced by each nation, the Beibu Wan has never been delimited. Vietnam's Vice-Foreign Minister had also explicitly expressed to China on 26 December 1973: "As of now, the two countries have not delimited the maritime space in Beibu Wan, because Vietnam has always been in a status of war."

Since China and Vietnam held talks on Beibu Wan maritime space in August 1974, Vietnam claimed that "the border has already been delimited long ago," however, obstinately asserting that the 1887 Sino-French "Continuous Talks on Special Provisions for Border Affairs" had set longitude 108 degrees three minutes 13 seconds east as the "maritime border line" between the two nations in the Beibu Wan. This statement by Vietnam is aimed at claiming two-thirds of the maritime space in the Beibu Wan as its own.

China believes, in view of the fact that the continental shelf of the Beibu Wan is the natural extension of the

land of China and Vietnam, and the maximum width of the maritime space of the Beibu Wan is over 170 nautical miles, the Beibu Wan continental shelf and underwater resources should be shared by China and Vietnam in accordance with the principle of international law which stipulates that a coastal nation is authorized to set an economic zone not exceeding 200 nautical miles. If Vietnam's view in using longitude 108 degrees three minutes 13 seconds east as the border line is upheld, Vietnam would seize a greater part of the maritime space in Beibu Wan. The shortest distance between China's Hainan Island and this line is only 30 some nautical miles, while that between the Vietnamese coast and this line is over 130 nautical miles. Obviously this is unfair and unreasonable.

In fact, the "maritime border line" mentioned by Vietnam is groundless. The provision on border affairs in Guangdong of the Sino-French "Continuous Talks on Special Provisions for Border Affairs" explicitly pointed out: "As for various islands in the sea, the red line drawn by the high-ranking border surveying officials of the two countries should go southward passing through the hilltop east of Chagushe. With this line as the border, various islands in the sea east of the line belong to China, while the Jutoushan and other small islands west of the line belong to Vietnam." The earliest version in French also showed the location of this red line as Paris Meridian longitude 105 degrees 43 minutes east. That is Greenwich longitude 108 degrees three minutes 13 seconds east. It is obvious that this red line served to decide the ownership of the nearby islands in the sea at the mouth of the Beicang River. It is simply not the "maritime border line" between the two countries in the Beibu Wan. Besides, so far as the historical conditions are concerned, a theory of maritime freedom was prevailing at the end of the 19th Century when the treaty was signed. It is inconceivable that China and France could possibly delimit such a vast Beibu Wan as if it was an inland sea.

In addition, Vietnam's attitude towards the "(Brevie) Line" between Vietnam and Cambodia is enough to elucidate the issue. In 1939, Governor (Brevie) of the French Colonial authorities had drawn a dividing line between Cambodia and Vietnam for administration and security purposes in the Gulf of Siam. Apparently this line defined the limits of the administrative jurisdiction of various islands, not the sovereignty of the islands or the maritime space between them. Cambodia suggested to use this line as the maritime border line between Cambodia and Vietnam, but Vietnam turned it down. Vietnam and Cambodia's Phnom Penh Government reached an agreement in 1982 with the understanding that this line only defined the limits of the islands in the region. Contrasting with its own assertion regarding the red line in Beibu Wan, Vietnam apparently is self-contradictory. It simply cannot offer a tenable argument. China hopes that on the basis of the relevant principles of the existing international Law of the Sea, China and Vietnam will fairly and reasonably delimit the economic

zone and the continental shelf in the Beibu Wan sea area. Pursuing an independent foreign policy, China is willing to develop relations with all the nations that are willing to be friendly with China, especially its

neighboring countries. The relations of good neighborliness and friendship between China and Vietnam will definitely make a positive contribution to maintaining peace in the region.

**Biodata on New Politburo Member Hu Jintao**

93CM0070A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 242, 16 Nov 92  
pp 20-23

[Article by Hsu Ch'en-hsing (6079 5256 2502): "A Cross-Century CPC Leader: Hu Jintao"]

[Text]

**The CPC's Youngest Policymaker Will Be a Cross-Century Leader**

At the 14th CPC Congress, 49-year-old Hu Jintao was chosen as a new member of the Politburo Standing Committee. As he will be only 54 years old in 1997 at the end of this term, and is very likely to be chosen for another one, to become one of China's cross-century leaders, his every word and deed are being scrutinized both in China and abroad.

It is understood that in the CPC's new policymaking nucleus, Hu Jintao will replace Song Ping as director of the CPC Central Committee Organization Department.

KUANG-CHIAO CHING was very early to notice Hu Jintao's development and movements. As far back as our January 1989 Issue No 196, we had published a long article entitled *Hu Jintao Receiving Instructions in the Midst of Danger and Disaster*, which pointed out the particularly noteworthy possibility that Hu Jintao might become a future giant in China's political world. Moreover, we included his lifetime official career achievements in our Ninth Collection of *Famous Contemporary Chinese*.

**Getting Into Politics Was Certainly Not Hu Jintao's Original Intention**

In comparison to those of his age, Hu Jintao must be considered fortunate.

He was born in the same place as Hu Shih ((1891-1962) poet and scholar of the Republican period), i.e., Jixi County, Anhui Province, and was an outstanding student at Qinghua University, Beijing, where his dream was to become a "hydropower expert." When discussing his experiences, he always says that "getting into politics was certainly not my original intention."

In July 1965, one year before the "Great Cultural Revolution," he graduated from Qinghua U.'s Department of Water Conservancy with a degree in River Powerstations. He was not assigned to a power station, but rather stayed at the university as a political instructor, as well as to do scientific work.

The next year, 1966, when the "Cultural Revolution" was just exploding, he became one of the few student party members to be criticized and denounced, after which he "went scot-free."

In 1968, he was sent to Gansu—one of Northwest China's poverty-stricken provinces, where he became a

technician in the Ministry of Water Resources and Electric Power's Bureau Four, Suboffice 813. But after working only a few days as a technician, he began to work as a secretary and then as deputy secretary of the general party branch organization, becoming a cadre engaged in party work.

This became the path of no return that got him into politics.

In 1974, he was reassigned to work at the Gansu Provincial Construction Commission, first as a secretary, and later as deputy head of its planning supervision office.

**In Gansu, Hu Jintao Was Recognized by Song Ping**

While 1992 was an important year in Hu Jintao's rise to the top, 1980 could be said to have been the key year in his meteoric rise. It was due to his recognition by Song Ping, then first secretary of the Gansu Provincial Party Committee and just appointed to the Politburo Standing Committee, that Hu Jintao was promoted out of order to become the deputy director of Gansu Province's Construction Commission, and later was sent to Beijing to study in the Central Party School's training classes for young and middle-aged cadres.

These classes at the Central Party School were set up specially for the training of senior CPC cadres. Many current key central party and government officials, such as State Council Secretary General Luo Gan and the State Council's New China News Agency Deputy Director Ceng Jianhui, are graduates of these training classes.

Hu Jintao was of course one of their bright stars. Not long after he graduated from the Party School's training classes, just as the Communist Youth League (CYL) was holding its 11th Congress, Hu Jintao, along with Wang Zhaoguo and others, was elected to the CYL Central Committee Secretariat, with Wang Zhaoguo becoming first secretary, and Hu Jintao second secretary.

As Hu Jintao was very respectful of others, always listening to colleagues' criticisms with an open mind and being very good at bringing about unity, he earned high prestige in the organization not long after he went to the CYL Central Committee. For instance, "organizational reform" was just underway at the time, with one case being whether to merge the CYL Central Committee's College and Youth sections. Hu Jintao listened to the criticisms of certain opponents. At a National Working Conference on Children in Guangzhou, he also listened conscientiously to the criticisms of many senior child care workers, feeling that grade and high school pupils differed in many aspects from college students, and finally keeping the CYL Central Committee's Youth Section, which is still extant to this day.

Hu Jintao's workstyle has always been to get right on the job without trying for any undeserved reputation.



### **Hu Jintao Never Lets His Secretaries Write His Reports**

When secretary of the CYL Central Committee, Hu Jintao never let his deputies write his reports. He always first sought out people for an exchange of views, and then wrote his own outlines. When giving speeches, he never "read from a script," but rather spoke vividly based on his outlines, and presented definite realistic views of his own.

Wang Zhaoguo was Deng Xiaoping's choice as CYL Central Committee first secretary "successor." But opinions vary over why Hu Jintao was picked as second secretary, with some saying that it was due to Song Ping's vigorous recommendation to the Central Committee, and others that Hu Jintao was discovered by then CPC Central Committee Secretary General Hu Yaobang on an inspection tour of Gansu. But his current appointment to the Politburo Standing Committee certainly had the approval of both Deng Xiaoping and Jiang Zemin. Jiang Zemin even specially points out to Chinese and foreign reporters that Hu Jintao is the youngest member of the Politburo Standing Committee.

### **Hu Jintao Was Greeted in Xizang (Tibet) by the Sounds of Gunfire**

The news came out of Beijing at the end of 1988 that the CPC Central Committee had appointed Hu Jintao as Party Committee Secretary of the Xizang Autonomous Region, and that Wu Jinghua had been dismissed from that job.

As China's youngest Provincial Party Committee Secretary at the time, Hu Jintao was considered to be "receiving instructions in the midst of danger and disaster." In 1985, when he was dismissed as CYL Central Committee First Secretary and appointed as Provincial Party Committee Secretary in Guizhou Province, the most poverty-stricken place in China's great southwest, he was only 42 years old. Then three years later, when his work in Guizhou had just begun to improve, Hu Jintao was again elected Provincial Party Committee Secretary at the Guizhou Province Party Congress in August 1988, so it was not expected that the Central Committee would issue him other marching orders. But when it did, he hurried off to the roof of the world in Tibet.

Hu Jintao could not have imagined that just as he was turning over the work in Guizhou to his successor, Liu Zhengwei, such startling news would come out of Lhasa.

### **A Challenge from the West**

Riots broke out in the streets of Lhasa, the capital of Tibet, on 10 December 1988.

The sound of gunfire in the streets became Hu Jintao's welcome to Tibet, with the West's inciting Tibet to independence and playing up of "human rights for Tibet" putting the pressure on and posing a challenge to Hu Jintao.

While CPC officials disclosed that in this riot, the police "merely fired as a warning," which resulted in one lama dead and 13 injured, the foreign press called this riot "the worst one in a year or two."

So in his four years in Tibet, Hu Jintao was faced not with highland-snow lotus flowers, but rather a path strewn with brambles.

### **Hu Jintao's Solid Work, Caution, and Steadiness Led to the Realization That the New Leader Was Certainly Out of the Ordinary**

When he received his marching orders in 1985 to become Guizhou Provincial Party Committee Secretary, Hu Jintao said that his work in poverty-stricken Guizhou would be long-term.

In July 1985, just as the news of Hu Jintao's appointment was reaching the outlying districts of northwestern Guizhou, he arrived there in person. This led people to the very surprising realization that their new Provincial Party Committee Secretary was certainly out of the ordinary.

At the time, he spent 11 days touring remote districts along Guizhou's borders with Yunnan, Sichuan, and Guangxi, visiting many mountain villages, factories, and mines in 12 counties.

As most of these places were poverty-stricken minority-nationality regions, his travels, observations, and questions enhanced his understanding of Guizhou.

Every time he was interviewed by reporters, he invariably said that ever since he had stepped onto Guizhou's land, he had felt that his fate was tied to the prosperity and well-being of his 30 million elders and brothers there.

By the end of 1987, he had spent two years touring all of Guizhou's 86 counties, cities, and districts. He talked about Guizhou as if counting up his family valuables, saying that in a decade of reform, Guizhou's GNP was up 120 percent, and that its revenues and peasant and urban resident per capita incomes were all up more than 180 percent.

### **Hu Jintao Understood Young People**

Hu Jintao felt that changing the face of poverty would require a group of sincerely dedicated people. As a provincial party committee secretary who had worked with young people, he understood them very well. He said that in the course of reform, young people not only needed a sense of urgency and mission, but also had to understand the difficulty and complexity of reform, so that they would not have too high hopes, while their psychological acceptance capacity was very low.

This reflected one aspect of Hu Jintao's steady and pragmatic character.

Hu Jintao rose through the ranks of the CYL, with his appointment as Guizhou Party Committee Secretary

being on the recommendation of then Secretary General Hu Yaobang. After Hu Yaobang's fall from power, when the "CYL faction" 's chief, Wang Zhaoguo, was sent to Fujian, it was said at the time that it was going to be hard for Hu Jintao to retain his official status.

So who would have guessed that Hu Jintao would not only not be demoted or dismissed, but would instead be sent to the sensitive Tibetan region as Autonomous Regional Party Committee Secretary, and later be promoted to the Politburo Standing Committee.

#### **Hu Jintao Has the Elegant Poise of a Handsome Young Scholar**

Some years ago, the first words of one Japanese to Hu Jintao were "I liked you the minute I saw you." Hu Jintao's smartness has certainly won over many people. When they were working in the CYL Central Committee, Wang Zhaoguo had a reputation for his "loud and clear voice," while Hu Jintao was praised for his "good looks."

His tall stature, delicate features, elegant poise, conversational humor, and meek steadiness are what make up Hu Jintao's exceptional nature and bearing.

As a high-level leader, he is upright and adept at dealing with complex conflicts. His work is both firmly principled and tactically flexible.

He pays particular attention to his image, having been unwilling for many years to publicize himself. As to the media, he very infrequently gives interviews to reporters. He believes that while work should be done conscientiously, publicity must be reduced to a minimum. Inappropriate reporting could only have accelerated his fall from power as a young Provincial Party Committee Secretary.

When he went to Beijing for meetings as a Provincial Party Committee Secretary, he repeatedly warned reporters not to report on his activities, in order to "keep from stirring up unnecessary trouble."

He could be considered to be one of the most theoretical leaders of mainland China's 30 provinces, autonomous regions, and municipalities in recent years. He notes that good provincial party committee secretaries should have the following four leadership qualifications:

They should have firm beliefs and strong aspirations, in order to keep their feet on the ground and not strive for undeserved reputation; they ought not to put on bureaucratic airs or be removed from reality, so that they can stay in touch with the public; they need to be democratic, while being able to act decisively at crucial times; and they must be ardent lovers of life.

As to being ardent lovers of life, Hu Jintao particularly explains that this means a sense of responsibility to the cause, loyalty in friendships, and a love of campaigns, literature and art, and all good things in life.

He is an ardent lover of literature and art, being infatuated with movies, plays, and novels. As to his love of life, while he often plays the "prince on a white horse" on stage, he actually can dance only three or four steps. He also often sings heartily, for which he is greatly admired....

But after he was promoted to CPC Provincial Party Committee Secretary, he often restrained himself to keep from becoming too self-indulgent. During the many years that he worked in the CYL Central Committee, Guizhou, and Tibet, he was well-liked by all of his colleagues. But while all agree that he is a concerned person who is good at ideological work, some believe him to be relatively weak, with too little boldness and not enough development initiative.

#### **Hu Jintao's Family Situation**

Like many mainland Chinese provincial and ministerial officials, Hu Jintao did not take his wife and children with him to Guizhou or Tibet.

While his wife formerly worked in the CYL Central Committee too, she left when he did to avoid suspicion, being reassigned to the Chinese Youth Travel Service (part of the CYL organization) to work for the Beijing Construction Commission.

This was quite a coincidence. While Hu Jintao had worked for the Gansu Construction Commission before getting into politics, who would have thought that a decade later his wife would be working for the same organization. This truly leads to a certain feeling that they "reached the same goal by different routes."

Hu Jintao and his wife were college classmates, have been in love for many years, and now have one son and one daughter. In mainland China, a complete family like Hu Jintao's of husband, wife, son, and daughter is certainly one to admire.

#### **Hu Jintao Has a Certain Amount of Experience in Dealing With Unexpected Outbreaks**

Hu Jintao also has a certain amount of experience in dealing with unexpected outbreaks. For instance, Guizhou is a province that has had troubled times, and one where Hu Jintao participated in the handling of incidents, such as sending in large numbers of troops and police to surround and arrest gun-toting murderers, and dealing with train derailments. As to events in recent years, on 14 October 1988 Guizhou U. experienced an incident in which vocational students beat and injured 11 Guizhou U. Students with lethal weapons, after which up to 1,000 Guizhou U. students surrounded the dormitory of the attackers, where they fasted for 30 hours, beat and injured over 20 police who came to break them up, destroyed police cars, and demonstrated in the streets. But the incident was eventually resolved appropriately so that calm prevailed.

### Hu Jintao Is Going To Be Involved in Future Major Personnel-Change Decisions

As major changes are coming to all of China's senior provincial and ministerial leadership positions, in which younger leaders will be the successors, Hu Jintao is going to further display his foresight and skills in dealing with the key job of China's future numerous and complicated personnel changes.

### Summary of Research on Deng Xiaoping's Thoughts

93CM0110A Chengdu MAO ZEDONG SIXIANG YANJIU [STUDIES IN MAO ZEDONG THOUGHT] in Chinese No 4, 25 Nov 92 pp 141-145

[Article by Qu Xia (2575 1499), affiliated with East China Petroleum University, edited by Xu Li (1776 7812): "A Summary of Research Over the Past Five Years in Deng Xiaoping's Thoughts"]

[Text] Ever since the Third Plenary Session of the 11th CPC Central Committee, theoreticians and historians have been paying particular attention to studies of Deng Xiaoping and his thoughts, scoring great research successes. These studies have been even more fruitful in the last five years, with the publication not only of a group of research papers, but also of a large number of research dissertations. The following is a summary of the results of the key studies over the last five years in Deng Xiaoping's thoughts.

#### I. Deng Xiaoping's Thoughts on Theory

1. Deng Xiaoping's Marxist philosophy. Deng Xiaoping has a solid understanding of Marxist theory, paying particular attention to the study and application of Marxist philosophy. While *The Selected Works of Deng Xiaoping* do not contain a special chapter on philosophical matters, it can be said that their every chapter illuminates the brilliance of Marxist philosophical thought. Chi Aiping [6688 1947 5493] notes that Deng Xiaoping carries on the development of Marxist philosophy as follows: 1. By affirming the ideological line of the proletariat as the ruling party focused on seeking truth from facts; 2. Through restoring the authority of practice, by adhering to the standard that practice is the only test of truth, which laid the ideological basis for the drive since the Third Plenary Session of the 11th CPC Central Committee to free up the thinking of all the people; 3. By upholding the concrete truth theory, which has provided a powerful theoretical weapon for the full and accurate understanding and practice of Mao Zedong Thought by the whole party; 4. Through a scientific discourse on (man's) conscious dynamic role, which has provided correct guidance to all of the people on remaking their world; 5. By applying a new proposition to generality and individuality; 6. Through applying the law of the unity of opposites in proposing the scientific construct of "One Country, Two Systems;" 7. By studying and dealing with all of the issues involved in socialist reform and the development of democratic

government from a dialectical, overall, and integrated standpoint; 8. Through summing up socialist revolution and construction experience, which has made a new contribution to the enrichment of Marxist historical materialism. (Footnote 1—Chi Aiping, *Deng Xiaoping on Carrying Forward and Developing Marxist Philosophy*, XUEXI LUNTAN [ACADEMIC FORUM] No 12, 1990.)

2. Deng Xiaoping's theory of socialism with distinct Chinese characteristics. Since the Third Plenary Session of the 11th CPC Central Committee, Chinese Communists represented by Deng Xiaoping have used Marxist revolutionary courage, vision, and brilliance in combining Marxism-Leninism with Chinese realities, by adhering to and developing Mao Zedong Thought to found and develop the theory of socialism with distinct Chinese characteristics. Fang Weigang [2455 4850 0474] notes this theory's major contents as follows: that socialist society will have a very long initial stage; adherence to a focus on economic development; persistence in the four basic principles and opposition to bourgeois liberalization; that reform and opening is the way to become a powerful country, and adherence to reform and opening as the direction for socialism; that a socialist economy is a planned commodity economy based on public ownership; persisting in the dominance of public ownership while developing diversified economic components; sticking to the dominance of distribution according to work while practicing diversified distribution forms; strengthening the party's own development as the ruling party during reform and opening; doing a better job of developing a socialist spiritual civilization; and using the "One Country, Two Systems" formulation to achieve Chinese reunification. (Footnote 2—Fang Weigang, *Studies In the Theory of Socialism With Distinct Chinese Characteristics*, MAO ZEDONG SIXIANG YANJIU No 4, 1990.)

3. Deng Xiaoping's decade of ideological liberation. Xu Li points out the following in his article: The discussion begun in 1978 on the standard that practice is the only test of truth, the 1982 proposal to develop socialism with distinct Chinese characteristics, and the 1987 theory on the initial stage of socialism, were three strides in ideological liberation in a decade. Deng Xiaoping made the following great contributions to these three strides in freeing up of thinking: 1. He clearly supported the discussion on the standard that practice is the only test of truth; 2. He was the political architect of the development of socialism with distinct Chinese characteristics; 3. He was the founder of the theory of the initial stage of socialism as follows: he outlined the overall objective and stage of the initial stage of socialism; he pointed out that the basic task of our socialist society was to develop the productive forces so that the Chinese people could get free from poverty; he indicated that overall reform was the driving force behind socialist development; he made opening up to the outside world the basic policy for the initial stage of socialism; and he noted the need during the whole period of progress in the initial stage of



socialism to adhere to "one center, with two basic points," in order to ensure the implementation of the party's basic line during the initial stage of socialism. (Footnote 3—Xu Li, *Deng Xiaoping's Three Strides in Ideological Liberation in a Decade*, MAO ZEDONG SIXIANG YANJIU No 4, 1988.)

4. Deng Xiaoping's theory on contemporary consciousness. Chen Zhiliang [7115 1807 5328] et al note the following: A marked feature of Deng Xiaoping's activities and awareness is his contemporary consciousness, including the three levels of a contemporary view of the times, a modern operating outlook, and an up-to-date mode of thinking. In order to understand Deng Xiaoping's theory on contemporary consciousness, it is necessary to begin with a study of these three levels. As Deng Xiaoping sees it, transformation of mode of thinking requires change in the following areas: conversion from the past empirical mode of thinking to a contemporary one of knowledge and intellect; conversion from the past closed off mode of thinking to a modern one of openness; conversion from the past simple and rigid ways of thinking to diversified and creative ones; and conversion from the past static ways of acting and thinking to more dynamic ones of constant adjustment to new information. (Footnote 4—Chen Zhiliang et al, *Deng Xiaoping's Theory on Contemporary Consciousness*, XUESHU JIAOLIU [ACADEMIC EXCHANGE] No 3, 1991.)

## II. Deng Xiaoping's Thoughts on Politics

1. Deng Xiaoping's political reform thoughts. Theorists generally agree that Deng Xiaoping's thoughts on political reform can be divided roughly into the following four stages: 1. The "cultural revolution" period was the deliberative stage. In order to assimilate historical lessons, he began to consider Chinese politics from a system perspective; 2. From 1978 to 1980 was the presentation stage. He began in this stage to present more systematic thoughts on political reform, by fully discussing the necessity of, the basic contents in, and the application principles for reform; 3. From 1981 to 1984 was the maturation stage. As this stage required economic adjustment but strong political stability, and views on political reform both within and outside of the party differed, he spoke very little and reflected more; 4. From 1985 to the eve of the 13th CPC Congress was another presentation stage. The major features of this stage were that after much consideration, he more systematically, fully, and clearly presented his political reform guiding principles, objectives, contents, and priorities, and demanded that political reform be put on the agenda in all party work.

Deng Xiaoping's thoughts on our political system are very valuable, with the most prominent ones being as follows: 1. The major defects of the Chinese political system are its past influence by feudalism and its severe bureaucracy; 2. The long-range objective of China's political reform is political democratization, while its immediate aims are combating bureaucracy, enhancing vitality, improving efficiency, and arousing initiative; 3.

Party affairs must be separated from government administration; 4. It is necessary to differentiate the basic jurisdictions of the central and local governments, in order to bring initiative into full play at both levels, separate government administration from enterprise management, and expand grassroots decisionmaking power; 5. Streamlining of the administrative structure is a revolution, with the key to structural reform being functional conversion and the legalization of authorized staff size; 6. It is necessary to reform our cadre personnel system; 7. We need to develop better socialist democracy and legal institutions. (Footnote 5—Lu Xiaomei [0712 4607 2734], *An Exploration of Comrade Deng Xiaoping's Thoughts on Political Reform*, HUBEI SHEHUI KEXUE [HUBEI SOCIAL SCIENCE] No 3, 1988.)

2. Deng Xiaoping on combating bourgeois liberalization. Ever since the Seventh Plenary Session of the 11th CPC Central Committee, Deng Xiaoping has been warning the whole party that it must stick to the four basic principles, and has been leading the whole party in a sustained struggle against bourgeois liberalization. Sun Jianchun [1327 0494 4783] suggests that this struggle can be divided into the following three phases: 1. From the spring of 1979 to the Seventh Plenary Session of the 11th CPC Central Committee in September 1982, when the struggle was focused on whether to adhere to the leadership of the party and Mao Zedong Thought. The struggle in this phase dealt with the three key problems of repelling the so-called "Beijing Spring" countercurrent, suppressing illegal publications and organizations, and combating the tide of bourgeois liberalization on the ideological front; 2. From the 12th CPC Congress to the Central Politburo Enlarged Session in January 1987, covering a longer period of four to five years, during which the struggle was more difficult and complex. The social struggle in this phase was focused on whether to adhere to or oppose the four basic principles, while the focus of differences within the party was over combating spiritual pollution and criticizing "wholesale Westernization." The two key struggles in this phase were criticizing abstract humanitarianism and alienation and combating spiritual pollution, and combating "wholesale Westernization" and curbing campus upheavals; 3. From the Central Politburo Enlarged Session in early 1987 to the Fourth Plenary Session of the 13th CPC Central Committee in June 1989. As the keynote of this phase was speeding up and deepening reform, ideological problems became more glaring, while the grave mistakes of the key leader in charge of central affairs at the time accelerated the deepening and intensification of conflicts. The social struggle during this phase was focused on adherence to or denial of the leadership of the party and the socialist system, while the inner-party difference was over stand and approach to bourgeois liberalization and the riots. (Footnote 6—Sun Jianchun, *Comrade Deng Xiaoping's Historical Contribution to the Fight Against Bourgeois Liberalization—A Study of the Party Bulletin of the Fifth Plenary Session of the 13th CPC Central Committee*, QIUSHI [SEARCH FOR TRUTH] No 12, June 1989.)

3. Deng Xiaoping's thoughts on stability. Peng Gang [1756 1511] notes the following theoretical sources: the evolution of his theories on socialist development and reform thought are one of Deng's theoretical rationales; the principles of absolutism and relativism in Mao Zedong's philosophical thoughts are Deng's philosophical basis; and Mao Zedong's correct stand on stability is Deng's direct theoretical rationale. Chen Gengsheng [7115 2577 3932] et al note that Deng's formal foundation is that China's need for stability is a profound conclusion drawn from the historical lessons learned during the "cultural revolution" turmoil, an objective requirement for China's socialist modernization, and a key verdict reached through observing the immediate experiences and lessons of the current international socialist movement.

There are currently two interpretations of Deng Xiaoping's basic thoughts on stability. Chen Gengsheng et al note that they refer to the following: 1. Domestic political stability, including unity within the leadership at all levels and social stability, as well as the continuity and momentum of the party and nation's line, principles, and policies; 2. The sustained, steady, and balanced growth of China's national economy; 3. A struggle for peace and international stability. Chen Gang analyzes the implications and extensions of stability, saying that its major implications are stability in our national political and economic activities and social order, as well as stability in the essential economic norms of our nation's basic political system, in order to prevent intensely violent clashes and social or political upheavals that would essentially overthrow our current political and social systems; and that its extensions are political, economic, and social stability.

Deng Xiaoping's thoughts on ways to achieve stability can be summed up as follows: having a clear-cut ideological stand; consistently adhering to the four basic principles, by combating bourgeois liberalization, which is the ideological guarantee for stability; as to the political superstructure, perfecting socialist democracy and legal institutions, by adhering to the function of the people's democratic dictatorship, which is the political guarantee of stability; and in economic development, vigorously developing our society's productive forces, agriculture in particular, which is the material basis for stability. (Footnote 7—Chen Gengsheng et al, *A Probe of Deng Xiaoping's Thoughts on Social Stability*, LILUN YU GAIGE [THEORY AND REFORM] No 1, 1990; Peng Gang, *Exploring Deng Xiaoping's Thoughts on Stability*, MAO ZEDONG SIXIANG YANJIU No 4, 1990; Tian Rongshan [3944 2837 1472], *On Comrade Deng Xiaoping's Thoughts on Political Stability*, SIWEI YU SHIJIAN [THOUGHT AND PRACTICE] No 5, 1990.)

4. Deng Xiaoping's theory on class struggle. Deng Xiaoping not only has carried forward and adhered to Mao Zedong's theory of class struggle, but also has brought some new creativity and development to it, mainly as follows: 1. Class struggle will not again become

the major conflict in the current stage of Chinese society; 2. The targets of class struggle in socialist society are clearly different than they were in our past history; 3. Class struggle in socialist society will be limited in scope, in that it should no longer be practiced in forms, such as political movements and mass struggle, but will operate rather through the people's democratic dictatorship and legal weapons; 4. As our society's major conflicts have changed and the focus of the efforts of our whole party and government have shifted, the basic driving force behind the development of socialist society is no longer class struggle, but rather the necessity for smooth socialist economic development. (Footnote 8—Li Zhi [2621 4160], *Deng Xiaoping's Support for and Development of Mao Zedong's Theory of Class Struggle*, MAO ZEDONG SIXIANG YANJIU No 2, 1991.)

5. Deng Xiaoping's thoughts on management and administration. Rong Shixing [2837 0099 2502] and Huang Shaocang [7806 1421 5547] note that Deng's basic thoughts here are as follows: the socialist principles of management and administration are political leadership by the party, participation by the public, and rule by law; the decisive factor in management and administration is the selection of personnel excellence; democracy in management and administrative activities is the administrative leadership system through which personal responsibility is exercised; management and administration is aimed at establishing a skilled and effective national administrative workforce. (Footnote 9—Rong Shixing and Huang Shaocang, *A Brief Account of Deng Xiaoping's Thoughts on Management and Administration*, SHEHUI KEXUE TANSUO [STUDIES IN SOCIAL SCIENCE] No 4, 1989.)

6. Deng Xiaoping's policy and theory on intellectuals. Xiao Bo [2556 0590] makes the following remarks: Deng Xiaoping's theoretical stand on intellectuals is mainly as follows: 1. He fully acknowledges their key role in our modernization; 2. He adheres to the scientific judgement that intellectuals are part of the working class; 3. He has an established position of respect for knowledge and talent, believing that the role of intellectuals should be brought into full play. He believes that in order to truly achieve this, it is necessary to conduct widespread and thorough propaganda, while providing the corresponding policy guarantees as follows: A. It is necessary to establish a cadre corps that adheres to the socialist road, while having professional knowledge and capabilities; B. It must be ensured that specialized technicians can devote their greatest efforts to their professional work; C. It is necessary to conscientiously carry out the "double hundred" policy on the political premise of adherence to the four basic principles; D. We need to scientifically deal with intellectuals' practical matters and problems with workers and peasants; E. We must continue to strive to create good working conditions for intellectuals; 4. He believes in guiding intellectuals to conscientiously accept their historic social responsibility. (Footnote 10—Xiao Bo, *Unswervingly Implementing the Party's Policy on Intellectuals—A Study of*

*Comrade Deng Xiaoping's Views on Intellectuals*, WEN HUI BAO 11 Feb 1990; Mi Wenxian [4717 2429 7359], *Deng Xiaoping's Great Contribution to the Party's Intellectual Policy Since the Founding of the PRC*, SICHUAN SHIFAN DAXUE XUEBAO [SICHUAN TEACHERS COLLEGE JOURNAL] No 4, 1991.)

7. Deng Xiaoping's united front ideology. Xiao Jiwen [5135 4949 2429] notes the following three major aspects: 1. Deng's profound discussions on the status and role of the united front elucidate its strategic significance, reaffirm its "magic" role, and scientifically prove its protracted nature; 2. Deng made new provisions on united front policy tasks, saying that the basic idea and internal relations of the united front in the new age are changed, in that its targets and limits have expanded; 3. Deng's new theories on consolidating and developing our united front are as follows: the formulation of "One Country, Two Systems" for peaceful national reunification; thoughts on multiparty cooperation and political consultation in adhering to and improving the leadership of the communist party; scientific discourses on correctly understanding and dealing with the problem of conflicts within the united front; and theories on bringing the role of the CPPCC into full play. (Footnote 11—Xiao Jiwen, *On Deng Xiaoping's United Front Ideology*, QIU SHI No 3, 1990.)

### III. Deng Xiaoping's Thoughts on Economics

1. The basic features of Deng Xiaoping's thoughts on economics. Li Hanlin [2621 0698 3829] notes the following major expressions: acting in accordance with an understanding of China's particular national conditions is the basic policy guarantee for a series of major issues, such as political, economic, and cultural; respect for intellectuals; emphasizing S&T is the key to developing the productive forces in Chinese society; the diversity of socialist public ownership and production relations; reforming our current business management system in accordance with the principle of combining rights, duties, and interests. (Footnote 12—Li Hanlin, *Chinese-Style Socialist Economics—Learning From THE SELECTED WORKS OF DENG XIAOPING*, LILUN JIAOYU [THEORETICAL EDUCATION] No 7, 1987.)

2. Deng Xiaoping's thoughts on productive forces criteria. Liu Hexing [0491 0678 5887] makes the following remarks: 1. Deng's basic thoughts are as follows: developing the productive forces is a basic principle of Marxism; the basic mission of socialism is to develop the productive forces; socialism must make highly-developed productive forces its essential feature; only by developing our productive forces faster can we fully display the superiority of socialism; development of our productive forces will require taking the path of reform and opening; 2. Deng's theoretical contributions are: new developments of Marxism on ideas for developing the productive forces in contemporary socialist development; direct guidance in modernization through socialism with distinct Chinese characteristics, and lasting contributions to establishing a new style of

socialism; and a profound influence in establishing correct ideological methods for further adhering to and developing Marxist theory, freeing up our thinking, and bringing a consensus of opinion to the whole party and people throughout China. (Footnote 13—Liu Hexing, *Deng Xiaoping's Formation of and Contribution to Thought on Productive Forces Criteria*, HUANG-HUAI XUEKAN [HUANG-HUAI RIVERS JOURNAL] No 4, 1990.)

3. Deng Xiaoping's thoughts on fair distribution. Liu Fushou [0491 4395 1108] makes the following remarks: 1. The major item in Deng Xiaoping's general objective for fair socialist distribution is "one road with two safeguards," i.e., one road of joint prosperity in which those who get rich first help those who lag, with safeguards against both equalitarianism and polarization; 2. Deng Xiaoping's way of achieving the goal of fair socialist distribution can be summed up in the following two sentences: restrict the wealthy, help the poor, and make distribution according to work dominant; crack down on corruption, arrest criminals, and rectify and improve the environment. The specific contents here are: distribution according to work is the basic way to achieve the goal of fair distribution; appropriate restriction of those few people with too high incomes; the necessary support for the regions and workers with too low incomes. (Footnote 14—Liu Fushou, *Deng Xiaoping's Thoughts on Fair Distribution*, MAO ZEDONG SIXIANG YANJIU No 1, 1991.)

### IV. Deng Xiaoping's Thoughts on Military Affairs

1. Deng Xiaoping's view of warfare in the new age. Wang Shunhai [3769 7311 3189] et al note the following: 1. Deng Xiaoping's views on modern warfare growing out of hegemonism include the following rich contents: they clarify the implications and forms of hegemonism; and they point out that unbridled hegemonism has become the most glaring danger in today's world; 2. Deng has clarified the state of warfare in today's world, pointing out that while a world war will not occur in the short term, local wars are unavoidable; 3. Deng says that people's war remains our magic weapon for vanquishing enemies; 4. Deng has creatively presented new constructs for resolving international disputes through peaceful means, including the following particular ways: negotiations that substitute "dialogue" for "confrontation"; "One country, Two Systems" to enable antagonistic systems to coexist; and "joint development" to resolve international territorial disputes. These ideas of Deng Xiaoping break with the traditional patterns of "stopping war with revolution" and "abolishing warfare through war," being another key contribution to the Marxist warview. (Footnote 15—Wang Shunhai and Yu Baozhong [0060 0202 0022], *Superficial Studies in Comrade Deng Xiaoping's New-Age Warview*, XUESHU BAIJIA [ACADEMIC HUNDRED SCHOOLS OF THOUGHT] No 4, 1989.)

2. Deng Xiaoping's key contributions to new-age military affairs. Tao Bojun [7118 0130 6874] notes Deng's



major contributions as follows: Deng made a penetrating analysis of the international strategic situation, and proposed a strategic change in China's guiding ideology on military development; he fully investigated the features of modern warfare, and developed a strategic policy of active defense; he correctly pointed out the major issues in military development, and decisively presented strategic policies on streamlining the force and reforming the system; he penetratingly delineated the objective laws of peacetime military development, and clearly pointed out that education and training are the key missions of military development; and he fully pointed out China's military development aims, and reclarified that standardization is one of China's military development tasks. (Footnote 16—Tao Bojun, *A Superficial Discussion of Comrade Deng Xiaoping's Key Contributions to New-Age Military Affairs*, JUNSHI SHILIN [MILITARY HISTORY] No 5, 1987.)

3. Deng Xiaoping's thoughts on military strategy. Xie Guoliang [6200 0948 5328] et al remark that Deng Xiaoping has particularly emphasized the following military strategy viewpoints: military strategy must be focused on safeguarding national security interests, and on creating an internal environment of peace and stability; it is necessary to strive to delay and avoid major wars, while resolutely winning minor unavoidable ones; it is necessary to have an active defense, and to practice people's war under modern conditions; military and nonmilitary means should be combined, and efforts should be made to use peaceful means to resolve antagonistic conflicts; and it is necessary to develop a comprehensive national might, and to basically enhance our military force. (Footnote 17—Xie Guoliang et al, *An Initial Assessment of Deng Xiaoping's Thoughts on New-Age Military Strategy*, MAO ZEDONG JUNSHI SIXIANG YANJIU [STUDIES IN MAO ZEDONG MILITARY THOUGHT] No 1, 1991.)

#### V. Deng Xiaoping's Thoughts on Culture

1. The features of Deng Xiaoping's thoughts on culture. Lou Yinggao [2869 6601 7559] comments as follows: The three major features of Deng Xiaoping's thoughts on culture are adhering to the guidance of Marxism-Leninism and Mao Zedong Thought, correctly carrying forward our national cultural legacy and promoting the modernization of our national culture, and resolutely opening up to the outside world and assimilating the cream of world culture. To sum them up more succinctly, Deng's thoughts on culture are to develop a new culture of modern socialism with distinct Chinese characteristics under the guidance of Marxism-Leninism and Mao Zedong Thought. (Footnote 18—Lou Yinggao, *The Features of Deng Xiaoping's Thoughts on Culture*, MAO ZEDONG SIXIANG YANJIU No 2, 1991.)

2. Deng Xiaoping's thoughts on literature and art. Chen Chen [7115 2525] makes the following comments: Deng Xiaoping's thoughts on literature and art adhere to and develop Mao Zedong Thought on literature and art, in particular as follows: the relation of literature and art to

people is that our literature and art belong to the people; the relation of literature and art to life is that they reflect the depth and breadth of our real lives; the relation of literature and art to revolution is that they have a major responsibility that cannot be replaced by any other sector; the relation of literature and art to writers is that writers are the real engineers of the human spirit; the relation of literature and art to criticism is that serious criticism must absolutely be made; and the relation of literature and art to development is that literature and art must take an increasingly broader path. (Footnote 19—Chen Chen, *Comrade Deng Xiaoping's Adherence to and Development of Mao Zedong Thought on Literature and Art*, YAN'AN WENYI YANJIU [STUDIES IN YAN'AN LITERATURE AND ART] No 3, 1987.)

#### VI. Deng Xiaoping's Thoughts on Party Development

1. The theoretical system of Deng Xiaoping's thoughts on party development. Deng Xiaoping's thoughts on party development are a component part of, adherence to, and development of Mao Zedong Thought on party development. Zhang Zhong [1728 0022], Gao Junhua [7559 7486 5478], et al note the following: Deng's thoughts on party development include the three levels of the need to adhere to and improve party leadership in the new age, the need to develop the party into a strong nucleus for leading socialist modernization, and how to develop the party into such a strong nucleus. This third level is the key item in Deng Xiaoping's thoughts on party development, and includes the seven development aspects of ideology, politics, organization, system, style, interparty relations, and the path of the ruling party. (Footnote 20—Zhang Zhong and Sun Tianqing [1327 1131 1987], *Experimental Discourses on the Theoretical System of Deng Xiaoping's Thoughts on Party Development*, LILUN DAOBAO [THEORETICAL REPORTER] No 6, 1990; Gao Junhua, *Experimental Discourses on Deng Xiaoping's Thoughts on Party Development*, LILUN TANTAO [THEORETICAL STUDIES] No 3, 1988.)

2. Deng Xiaoping's basic ways of rectifying party style. Deng Maowu [6772 5399 2976] makes the following remarks: Deng Xiaoping has done very effective work in all areas aimed at the existing problems in our party style, pointing out the following basic ways of rectifying it: leading cadres setting the example is the key to realizing a basic improvement in our party style; enhancing our ideological indoctrination and developing sounder systems are the permanent ways to resolve party-style problems; strengthening discipline and running the party and country strictly are forceful measures for rectifying party style; and enhanced oversight is an effective way of rectifying party style. (Footnote 21—Deng Maowu, *Preliminary Studies in Deng Xiaoping's Thoughts on Developing Party Style*, QIUSHI No 9, 1990.)

3. Deng Xiaoping's thoughts on democratic centralism. Luo Danqing [5012 0030 7230] has studied this in the following three areas: 1. The importance of democratic

centralism: it is the party's basic organizational principle, and is a major matter affecting the fate of the party and the nation; 2. The basic substance of democratic centralism: it achieves a high degree of centralism based on a high degree of democracy; collective leadership is one of the party's highest leadership standards; 3. How to build sounder democratic centralism within the party: it is necessary to correctly handle the relations of all party members and organs to the Party Central Committee, between party leaders and the party, between upper and lower levels, and among comrades within the party, in order to prevent all forms of personality cults. (Footnote 22—Luo Danqing, *Preliminary Studies in Deng Xiaoping's Thoughts on Democratic Centralism*, WUHAN DAXUE XUEBAO [WUHAN U JOURNAL] No 6, 1991.)

4. Deng Xiaoping's thoughts on the party constitution. Yu Weiping [0151 5898 1627] notes the following: In Deng Xiaoping's long job as key party leader, and through revolutionary and development experience, he has evolved thoughts on our party constitution that are rich and highly logical, the major ones being as follows: the party constitution contains our most fundamental party laws and regulations, the mass line is its most basic matter, and the party constitution clarifies the party's status and role in socialist modernization and safeguards our national laws; in order to ensure its effectiveness, the party constitution must be strictly enforced, as well as being revised and improved as necessary. (Footnote 23—Yu Weiping, *Deng Xiaoping's Thoughts on the Party Constitution*, MAO ZEDONG SIXIANG YANJIU No 3, 1991.)

5. Deng Xiaoping's contributions to succession theory. Zheng Wen [2973 2429] notes Deng's following contributions here: he has strengthened inner-party democracy, by choosing successors well and accurately; he has proceeded with system reform to ensure the training of more, and more excellent, talent; he has presented the "four modernizations" ability and political integrity criteria for cultivating and selecting successors in the new age; and he has emphasized that successors should be cultivated and selected according to a "ladder" and "echelon" formation. (Footnote 24—Zheng Wen, *A Brief Discussion of Deng Xiaoping's Thoughts on the Succession Issue*, MAO ZEDONG SIXIANG YANJIU No 4, 1990.)

### **Economic Development Requires Peaceful Evolution**

93CM0085A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 11, 11 Nov 92  
pp 8-11

[Article by Zhou Xincheng (0719 2450 1004): "Economic Development and the Upholding of Socialism"]

[Text] How should the proletariat class uphold and develop socialism after it seizes power is an issue of historical importance which the ruling Communist Party

is facing and must resolve. Lenin and Stalin explored this issue and put their ideas into practice. In China, the first generation leading group, with Comrade Mao Zedong at its core, and the second generation leading group, with Comrade Deng Xiaoping at its core, took into consideration China's own situation and further explored the issue and put their ideas into practice. China's socialist construction practices prove that to uphold, reinforce, and develop socialism, we must make economic construction the core and focus our energy on improving the economy, and as we develop the economy, we must "grasp with both hands" and strengthen the socialist spiritual civilization at the same time.

The fundamental task of socialism is to develop the productive forces. We all know that to replace capitalism with socialism ultimately is to resolve the conflict between the capitalist private ownership system and the social nature of the productive forces and open up even more grounds to liberate and develop the productive forces. For this reason, once socialism is established, we must focus our energy on developing the economy. This is the meaning of socialist revolution. Soon after the October Revolution Lenin suggested that after the proletariat seized political power, it must give top priority to the fundamental task of creating a social system superior to capitalism, and such fundamental task was to increase labor productivity. He made increasing output and greatly improving society's productive forces "the most important and most basic interest" of the proletariat class. On the eve of China's liberation, Comrade Mao Zedong keenly pointed out that after we entered the cities, all work should "wrap around production as the core and serve this core." In 1956, after basically completing the socialist transformation of the system of ownership of means of production, Comrade Mao Zedong again took warning from the Soviet Union's experience and started out from China's own situation and made an important speech entitled "On the 10 Major Relationships" which focused on the issue of economic construction. The central point of that speech too was to mobilize all positive factors to establish socialism by doing more, working quickly, emphasizing quality, and spending less. But for various reasons, Comrade Mao Zedong's correct thinking was not put into effect for a long time, and this delayed and hindered China's socialist cause.

After the Third Plenary Session of the 11th Party Central Committee, the party reviewed its experiences and lessons and rectified the "leftist" ideologies that began to develop in 1957 and reached its peak during the "Cultural Revolution." It brought order out of chaos and formulated the theory of constructing a socialism with Chinese characteristics as advocated by Comrade Deng Xiaoping. It promulgated the basic line of making economic construction the core, upholding the four basic principles, and upholding reform and opening up, thus truly shifted the focus of party work to economic construction. Today, the third generation leading group, with Comrade Jiang Zemin at the core, is carrying

forward the cause and forging ahead into the future and is pushing forward the grand undertaking of developing a socialism with Chinese characteristics.

We all know that Comrade Deng Xiaoping has formulated a three-step, 70-year strategic goal for development to be fulfilled over a period from the 1980's to the middle of the next century. He also said, "Today, we must make a firm commitment that except in the event of a major war, we must be determined and persevere to the end to devote ourselves to this matter, wrap ourselves around this cause, and ignore all interventions." We must hold on to economic construction and never let go. We must be "stubborn" and never waver. He pointed out that if we realized this strategic goal, not only would the Chinese people escape poverty for good but we would "show all mankind that socialism is the only way, that socialism is superior to capitalism." Recently, in the important speech Comrade Deng Xiaoping delivered during his southern tour, he once again emphasized seizing the opportunity to accelerate the pace of reform and opening up and concentrating our energy on improving the economy. He pointed out that "We will only embark on the road to destruction if we fail to uphold socialism, fail to reform and open up, fail to develop the economy, and fail to improving the people's livelihood." Comrade Deng Xiaoping is linking accelerated economic development to the future of socialism.

Today, we have two social systems, capitalism and socialism, and they are competing with each other. If socialism is to successfully resist the peaceful evolution strategy of the Western hostile forces, we must steadfastly uphold economic construction as the core. Improving the economy is the basis for strengthening the socialist system and for crushing the peaceful evolution plot. We can try to understand this from two different standpoints: In the long-run and fundamentally, economic development is the basic guarantee of the socialist system's final victory over the capitalist system. As Lenin pointed out, "Labor productivity ultimately is the most crucial, most important thing that guarantees the new social systems' victory" (*Selected Works of Lenin* vol 4, p 16.) Today, imperialism is able to launch an offensive with its overbearing peaceful evolution strategy against the socialist nations because of its economic and technological superiority. Because the socialist revolution won its first victories in the economically backward nations, the socialist nations will lag behind the well-developed capitalist nations for some time. This is inevitable, nor is it surprising. Given this historical condition, the socialist nations must rely on the superiority of the new system, struggle arduously, focus their energy, and improve their economy as soon as possible in order to catch up with or even surpass the well-developed capitalist nations. Only in this way can we completely eliminate the peaceful evolution threat the Western hostile forces are hurling at the socialist nations.

From today's perspective, economic development is the material basis for socialist nations to achieve political

and social stability. Because the pattern of "one world, two systems" will persist for sometime to come, the two systems will inevitably engage in repeated contests. If the economically weaker socialist nations are to resist the pressure of imperialism and peaceful evolution, they must rely on faster and better economic development. Thus, although the socialist nations are lagging behind the well-developed capitalist nations in absolute economic standards for the time being, if their economies develop faster than that of the capitalist nations, people will still be able to see the superiority of the socialist system and in turn will gain confidence in socialism. Conversely, if their economies do not improve, if the people's livelihood is no better, or if improvements are slow to come by, and instead of narrowing the economic gap with the capitalist nations, they are lagging further behind, the masses will not see the socialist system's superiority, and some people will be taken in by Western propaganda, and imperialism will be able to execute its peaceful evolution strategy.

Clearly developing the productive forces and accelerating economic construction are consistent with the efforts to counter peaceful evolution.

We should also realize this point from the lesson we learn in the dramatic changes in Eastern Europe and the disintegration of the Soviet Union. Failure to improve the economy no doubt was an important factor not to be overlooked in the political upheaval in the Soviet Union and Eastern Europe. In the mid-1970's, faced with the new technological revolution and the need to switch economic develop from the extensive management track onto the intensive management track, neither the Soviet Union nor the Eastern European nations made timely reforms. They never made any radical improvement of the economic systems that held back local, enterprises', and the people's enthusiasm and initiative. That seriously undermined the development of the productive forces, and adding the mistakes in economic decisions, their economic development stalled, their national economic structures became irrational and disproportional, they lost economic efficiency, commodity supply became scarce, and the people's livelihood was slow to improve. These could only provoke the people's dissatisfaction, heighten social conflicts, and in turn gave the enemy forces a change to incite the people and stir disturbances and even seize power from the proletariat and overturn the socialist system. Learning from this lesson, we must be even more resolute about upholding economic construction as our core and focus our energy on improving the economy.

Yet, if we analyze the causes of the evolution in the Soviet Union and Eastern Europe thoroughly, we will realize that the evolution in some of these nations was caused by many factors: some of them economic, some political, and some ideological. Therefore, our work to uphold and develop socialism and counter peaceful evolution should also be multifaceted. We cannot attribute everything to economic development. We must not think that so long as we improve the economy, the



proletariat political power and the socialist system will reinforce itself and our mission to counter peaceful evolution will fulfill itself.

Peaceful evolution is a political concept. Its basic meaning and implication is that imperialism does not resort to force but uses peaceful means to change the socialist system into capitalist system, and so in essence, peaceful evolution and counter peaceful evolution are a contest between the two systems. In the long-run and from the fundamental point of view, what finally decides the outcome of this contest is of course the economy. But this is only one factor, and at certain times and under certain conditions, this may not even be the decisive factor. For example, if we talk about economic hard times, the 1930's was much worse than the 1980's for the Soviets, and yet the evolution happened to take place at the end of the 1980's and early 1990's. The political storm in China that erupted between spring and summer 1989 which almost let peaceful evolution get the upper hand did not happen during economic hard times either. It happened at a time when the economy was growing the fastest and the people's livelihood was improving the most. In analyzing the causes of that political storm, Comrade Deng Xiaoping pointed out clearly that it was the inevitable product of the international macroclimate and the country's own microclimate. In other words, it was the combined result of imperialism stepping up the execution of its peaceful evolution strategy internationally and the flood of bourgeois liberalization in this country. The lesson is, we made the mistake of being "firm on one hand, and soft on the other hand" in our guiding ideologies—we emphasized material civilization and ignored socialist spiritual civilization and ideological and political work. We must not overlook this historical lesson.

We can also look at this point from the other side. Nixon, a capitalist politician, has keen political senses. In 1983 he toured Eastern Europe and met with several leaders and hundreds of civilians there. His conclusion was, "The time is ripe for starting the peaceful evolution in Eastern Europe." His basis was, "Eastern European communists have lost faith," "the communist will and confidence have been destroyed," and the new "generation of Eastern European are not thinkers, but doers, and pragmatism can make a breach for peaceful evolution." His conclusion has turned into fact.

In order to reinforce and develop socialism, Comrade Deng Xiaoping has put heavy emphasis on "grasping with both hands" from the beginning of reform and opening up. While he emphasizes economic development and improving socialist material civilization, he often reminds us to seize party construction, strengthen ideological and political work, and improve the socialist spiritual civilization. Socialist material civilization cannot be separated from spiritual civilization even for a moment. Comrade Deng Xiaoping points out that, "Failing to strengthen spiritual civilization, even material civilization can be ruined and go down a crooked path. Neither our revolution nor our construction will

succeed if we rely on material conditions alone." He points out emphatically that if we only seize material civilization and give up on spiritual civilization, "if the social tendencies are corrupt, what good is economic success? The essence can change in other ways, and in turn it will affect the nature of the whole economy, and if this goes on, it will turn into a world where corruption, robbery, and bribery run rampant." "Grasping with both hands" has always been part of Comrade Deng Xiaoping's thoughts and is an important part of his theory of developing a socialism with Chinese characteristics.

Comrade Deng Xiaoping reiterated this point in his important speech during his southern tour. No doubt the central idea of his entire speech was to seize the opportunity and focus our energy on improving the economy. But he also emphasized the need to strengthen proletariat dictatorship, because proletariat dictatorship is righteous, and he also urged us to stress party construction, because if ever there is going to be trouble in China, it will come from within the Communist Party, and if the party is straightened out internally, we will never be in trouble. Clearly, to reinforce the socialist system and counter peaceful evolution, we must "grasp with both hands"; both hands must be firm. If we only focus on one hand and overlook the other, or if we are firm on one hand and soft on the other, we will not be able to achieve long-term peace and stability.

Historical experiences prove that economic mistakes can lead to economic hardships and give the enemy forces the change to overthrow the socialist system. But the key lies in making sure that the party chooses the correct line. If it follows the Marxist line, it can perfect the socialist system through reforms. After China's "Cultural Revolution," having faced with economic hardship, and since the Third Plenary Session of the 11th Party Central Committee and the practices and probing in the subsequent years, the Party has combined Marxism with China's actual conditions and proceeded with reform and opening up to gradually formulate the basic line of "one core and two basic points." For more than a decade, we have implemented this line, and we not only have overcome difficulties but have carried the socialist cause a big step forward; our success has attracted world attention. Yet in the face of combined foreign and domestic anti-communist forces, the former Soviet party leaders denounced Marxism-Leninism, rejected the communist party's leadership, rejected proletariat dictatorship, rejected the socialist path, and even refuted the glorious history of the party and the people's prolonged arduous struggle. They even implemented a "humane democratic socialist" line which led people to lose faith and eventually brought down the entire Soviet Union. Clearly, mistakes in the party line was the determining factor in the evolution of the former socialist nations.

This also proves from the reverse side that Comrade Deng Xiaoping's "grasp with both hands" is entirely correct. Only if we work diligently to "grasp with both hands" and be firm with both hands can we uphold,

strengthen, and develop socialism. Any one-sided understanding of the party's basic line will prove detrimental to the socialist cause.

### Problems Noted in Township Structural Reform

93CM0088A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 11, 11 Nov 92  
pp 31-32

[Article by Jiang Dengbin (3068 4098 2430), affiliated with the CPC Municipal Party Committee Office in Xiantao, Hubei: "Problems To Be Noted in County-Level Structural Reform"]

[Text] As our economic reforms are constantly deepened and our opening is steadily expanded, structural reform and functional conversion in our party and government organs are becoming increasingly urgent. Certain counties and cities have recently been conducting advance pilot projects focused on the policy of "less government and more service," by setting up economic entities and transferring their office staffs. Attention needs to be paid to the following problems encountered in these pilot projects:

1. The merging of government administration with enterprise management. When party and government departments set up economic entities, the work relations of the office workers who are moved to these entities remain linked to their former units and their wage relations remain tied to state revenue. These workers are enterprise personnel on one hand, while remaining government functionaries on the other, so that the two relations coexist and they have two types of "business cards," acting as government functionaries in their work, but as enterprise personnel when discussing business. This results in the merging of government administration with enterprise management and a lack of separation between officials and businessmen, which easily becomes a breeding ground for exchanges of power for money and misuse of official authority for business profit;

2. Fake and nominal conversions. Some departments and units do not act according to centralized government deployments, neither setting up entities or reducing their staffs as they should, and then submitting falsified forms as a stalling tactic. When their financial allocations are too small, they collect various fees from their subordinate units to make up their staff wages and office expenses, forming a situation of fake and nominal conversion, in which staffs remain bloated and organizations are still unwieldy;

3. A lack of planning. As the government does not provide uniform plans for the type of economic entities to be set up by its departments, each department acts not to bring its own advantages into full play, but rather for short-term, equalitarian, and fast profits, by setting up projects that are the easiest to set up and running entities that are the most easily arranged, instead of making

extensive market surveys and thorough project demonstrations. This results in either low-level, duplicate development, causing severe trade similarity, or pouring into the field of circulation, with all running commercial businesses, or even specializing in "portfolio" business, which makes entities unrealistic;

4. Departmental monopolies. This involves departments taking advantage of industrial privileges, by mandating plans for certain businesses to be undertaken only by their own departmental entities, or that certain products can be produced or managed only by their own departmental entities, even to the point of forced sales of high-priced low-quality products to units or individuals;

5. Shifting the burdens. This involves shifting office workers by assigning them to original subordinate enterprises, and, in some cases, even assigning them all to higher than mid-level jobs, which increases burdens on subordinate enterprises. Some even transfer poor workers or the old, weak, sick, and disabled to entities, which overloads them to the point where they cannot function;

6. A decline in service: 1. An imbalanced intellectual structure. As opposed to the preceding problem of "shifting the burden," this involves personnel transfers that strive unilaterally for the interests of entities with no concern for regular government work, by appointing all knowledgeable and capable personnel to economic entities, which leaves the overall quality of those remaining too low; 2. An imbalanced cadre structure. As leading cadres hold too many positions, transfers to entities do not involve older, more qualified, high-positioned leading cadres, but rather mostly younger, less qualified, and lower- or no-position personnel, which leaves government staffs with more "officers" than "foot-soldiers." These two imbalances affect normal functional operations, lower work efficiency, and bring about a decline in service quality;

7. Covert profitseeking. As some departments and units have too few personnel to have subordinate entities or set up new ones, they transfer regular government services to entities, charging fees for services, such as running errands, handling formalities, and affixing official seals, which causes interdepartmental conflicts and contradictions between the government and the public, and affects the relations between the party and the public;

8. Leaders pretending to be businessmen. Leading cadres of some units wish to take the lead in entities, while not wanting to give up their executive power, so take phoney titles in economic entities as directors (factory managers) or deputy directors (deputy plant managers), trying to sit in both positions and work in both capacities. This results in either government administration not being separate from enterprise management, or difficulty in performing both jobs, in addition to tying the hands of those doing the real work in entities;

9. Severe interference. Some departments overemphasize their own functions, claiming that the organs or personnel performing their own department functions are "unsuited" to cutbacks and transfers to other departments or subordinate units, so interfere and obstruct, claiming that their functions are indispensable and their full-time staffs cannot be cut. Meanwhile, personnel transfers involve many connections, such as with leaders, schoolmates, or relatives, so that intercessions and warnings affect normal transfer work;

10. A wait-and-see approach. Some people hold to the principle that reform should not advance, which puts their own departments and units in a passive position, by keeping them from developing creatively or taking the initiative to convert their functions. They watch how other departments reform, wait for others to convert first, and act only according to others' ready-made experience.

Structural reform and functional conversion to improve service in county-level organs not only can lighten our state revenue burdens, but also can put a number of talented government functionaries into the major battlefield of economic development by enhancing their economic development motivation, while improving our government work efficiency. As the abovementioned deviations and symptoms are affecting our structural reform progress, attention needs to be paid to resolving them promptly.

#### **New Economic Thinking Requires Ideological Work**

93CM0077A Beijing DANGXIAO LUNTAN [PARTY SCHOOL TRIBUNE] in Chinese  
No 10, 5 Oct 92 pp 52-54

[Article by Wang Yuangang (3769 0337 0474), deputy head, Propaganda Department, Party Committee, Zunyi Ferroalloy Plant in Guizhou Province of the PRC: "An Understanding of Ideological-Political Work Under the New Socialist Economic System", Responsible editor: You Yuanwen (1429 0337 2429).]

[Text] Revolution is liberation of productive forces, and reform is also liberation of productive forces. Building a socialist economic system with a thriving vitality and promoting the development of productive forces, these are the tasks of the reform. In his important speech at the Central Party School in June of this year, General Secretary Jiang Zemin [3068 3419 3046] pointed out: "The basic task of accelerated reform of the economic system is none other than to establish as quickly as possible a new socialist economic system." "We have by now attained a well-matured theoretical and practical understanding of building the new socialist economic structure. There is now, moreover, a common understanding of it throughout the party, and it is therefore now absolutely possible to advance to the stage of accelerated implementation." The present accelerated pace of our reform will in its progression promote a

speedier establishment and formation of the new socialist economic structure. The problem of how to effectively perform ideological-political work under this new socialist economic system has now also become a new task in the reform, a task within the area of overall ideological-political work. It is in this regard that I am herewith putting forward my own humble understanding of the issue.

1. Ideological-political work should help people to rapidly attain such new concepts as are consonant with the new economic system.

During the 40-odd years since the founding of the PRC, China has for some length of time applied a highly centralized system of planned economy, which is now evidently no more suited to the needs of the developing planned commodity economy. The reform of the urban economic system was initiated in 1984, and though successful in many respects, it has, generally speaking, not yet truly broken all the fetters of the said highly centralized system of planned economy. Liberation of the productive forces requires a fundamental transformation of the economic system which is obstructing the development of our productive forces. The major task in ideological-political work is therefore to help people to free themselves from the inborn fixed modes of thinking along the lines of the original economic system and to change certain obsolete concepts that had been engendered under the former system. Otherwise, the new economic system, even if successfully introduced, would merely be like "putting on new shoes, but still walking the old road." In order to change certain obsolete concepts which had been formed under the old system and which are inconsistent with the need to develop the productive forces, it is necessary to build up in our minds a set of new concepts that are fully consistent with the new economic system.

For instance, under the new economic system, enterprises have become socialist commodity producers and dealers, operating under the state's macroeconomic policies and plan guidance. They are to be independent in their business management, fully responsible for their own profits and losses, responsible for their own development, and acting with self-restraint. They are to become relatively independent economic entities and corporate bodies with certain rights and obligations of their own. This, then, requires that our ideological-political work effectively help our numerous staff and workers to foster the concepts of self-management, self-responsibility for profits and losses, self-development, and self-restraint.

Furthermore, under the new economic system, government administration and enterprise management are separated; enterprises are no more subordinated to government, and all economic activity is no more determined by higher authority. Economic contacts of enterprises are conducted mainly through markets, and the objective of business operations is to achieve the highest possible profits and any other legitimate income. It is



necessary in this respect that ideological-political work help our numerous staff and workers to foster a "market concept, competition concept, a concept of economic returns," etc.

Furthermore, under the new economic system, enterprises will be allowed a full measure of self-determination. Correspondingly, they will have authority in such matters as employment, personnel, wages, bonus distribution, pricing of products, etc. This will require that our ideological-political work help those in leading positions in the enterprises to foster the correct "creative concepts" with regard to business management, executive powers, effective production, and plant development. They must also have the "bankruptcy risk concept", i.e. awareness of the possibility of having to close down, if business operations fail. There is also need to help our numerous staff and workers to foster such concepts as "positions are subject to competition, distribution of income is dependent on the contribution made," and also an awareness of the "risk of being retired or dismissed."

In short, under the new economic system, doing away with the interest structure under the former economic system, makes it extremely necessary to rely on powerful and effective ideological-political work to eradicate certain traditional concepts of the past, to which we had become accustomed and to establish more appropriate concepts.

## 2. Establishing an ideological-political work system focusing on economic construction.

Faced with the new economic system, it stands to reason that the ideological-political work performed under the former system will have to be changed. Precisely as Secretary General Jiang Zemin said in his speech at the Central Party School: "Historical conditions have changed, the social environment has changed, the tasks of the party have changed, and as a consequence the buildup of the party and the leadership pattern and methods of the party must be correspondingly changed and improved." It has, therefore, become an objective necessity that we introduce some new stratagems into the ideological-political work under the new economic system. We have to realize, of course, that under the new economic system there are great differences in efficiency, in incomes, in staff and worker value concepts, in their ideologies and conduct, between enterprises along the seaboard and those in the interior, between enterprises in areas that have preceded in development and those in backward districts, between large and medium-sized state-run enterprises and joint venture enterprises, and between town and township enterprises and collective enterprises. Ideological-political work will therefore also have to make a large number of distinctions. In general, the nucleus of ideological-political work under the new economic system must be to give prominence to the fact that the central concern is economic construction, however. Comrade Deng Xiaoping said, upholding the basic political line of the party will not change for a hundred

years. It follows that there will also be no change for a hundred years in the central position of concern for economic construction. Our point of departure and our standpoint in ideological-political work must be this central concern for economic construction. It is precisely as Comrade Li Ruihuan [2621 3843 3883] said during his discussions with leading cadres at the All-China Staff and Worker Ideological-Political Work Conference in May of this year: "Ideological-political work must never drift away from the central concern for economic construction, and must also not accept a duality of central concerns that includes oneself as one central concern, nor adopt a multiple of core concerns, which would obstruct or disturb the economic construction." We may therefore say that all ideological-political work under the new economic system is turning around this axis of economic construction, and as this ideological-political work is thus turning around this axis, it must fulfill at least the following demands:

First, its objectives must be consistent with our efforts to raise economic efficiency of enterprises and to develop the economy. Since there are hundreds of differences in the business operations of enterprises, there will have to be differences when it comes to choose the objective of ideological-political work for a particular enterprise. For instance, in an enterprise that operates at a loss, the main thrust of its ideological-political work must be directed toward that one objective of turning its unprofitable operation into a profitable operation; in an enterprise that is in the process of developing new products and working toward a greater variety of products, the main thrust of its ideological-political work must be directed toward this objective, etc.

Second, as to its content, ideological-political education must be conducted with economic construction as its very core. It must be conducted:

1) on the party's fundamental political line—"one central task and two basic points" [the task is economic construction and the points refer to upholding the four cardinal principles and persisting in reform and opening up to the outside world], 2) on the theory of socialist commodity economy, 3) on the achievements of reform and opening up and on the theory of reform and opening up, 4) on science and technology as primary productive forces, 5) on the production and development in one's own enterprise.

Third, as to its method, ideological-political work must be conducted in integration with and along the same line as economic work:

1) It must effectively comprise the staff and workers at all five administrative sectors, namely at the main plant, the branch plant, the workshop, the work section, and the work team; 2) It must effectively comprise all members of the leading group and managerial staff, especially the heads of departments, sections, and offices in charge of marketing, supplies, finances, planning, production, and personnel. This has been for a long time a weak link

in the ideological-political work of the past. 3) It must be made to permeate all the various links of business operations and management. Whenever production and business affairs are arranged, inspected, reviewed, and evaluated, ideological-political work should simultaneously be arranged, inspected, reviewed, and evaluated.

Fourth, as to its functions, it should raise the ideological-political quality of staff and workers, it should foster a value orientation and spiritual state among staff and workers that is consonant with the economic development, and it should promote the buildup of a material civilization.

Fifth, as to the methods, it should be integrated with propaganda in the mass media and the buildup of institutions. As to the propaganda by mass media, it should fully utilize broadcasting media reaching the masses, and also the cultural front in the enterprises, such as plant newspapers, closed-circuit television, and other such facilities, to effectively conduct propagandistic education, and to initiate certain effective self-education activities. As to the buildup of institutions, there must be a continued improvement and perfection of certain effective ideological-political work institutions, such as the "economic responsibility system at specialized political work posts," the "ideological-political work responsibility system for administrative cadres," "dual responsibility system at one post," etc.

Sixth, as to the inspection of standards, we must check and evaluate the merits and defects of ideological-political work in the enterprises, whether it comes up to standards, whether its results are beneficial socially as well as economically, and we must at the same time investigate the standards for social benefits, because merits and defects of ideological-political work can be seen in the extent to which it has been able to arouse enthusiasm among staff and workers, to raise labor efficiency, and to increase labor achievements. These are fundamental criteria to measure ideological-political work. As early as 1988, Comrade Deng Xiaoping pointed out: "To judge the leadership quality of a party committee in an economic sector, and to judge how well it has performed its leadership task, we must mainly look at whether that sector has adopted advanced management methods, how well it has performed its technological renovation, the extent to which it has raised productivity, by how much its profits have increased, and to what extent there have been improvements in the individual income of the workers and in collective welfare." (See *Selected Works of Deng Xiaoping, 1975-1982*, p 140) The report given at the 13th CPC National Congress also points out: "Whether a matter has been beneficial for the development of productive forces must become the starting point in the consideration of all issues and the fundamental standard in testing every kind of work." Of course, a vulgarization and simplification of standards for economic returns must be avoided by all means.

3. Ideological-political work under the new economic system must open up new territory.

Under the former system, ideological-political work in enterprises was basically limited to state-run enterprises. Under the new economic system, there has been an extensive development of enterprise groups, enterprises on the shareholding system, joint venture enterprises, and town and township enterprises. All these constitute a new territory that urgently needs expansion of ideological-political work.

Ideological-political work in enterprise groups must fit the special characteristics of socialized large-scale production. The common enterprise groups are conglomerate corporations or branches and subsidiaries of such, or entities formed by associated enterprises. Some of these conglomerates extend beyond a locality, a province, or even beyond the country, and the scope for ideological-political work is very large. Since some of the branch or subsidiary companies in an enterprise group have full-time personnel for ideological-political work, and some do not have such full-time personnel, the main force of ideological-political work should rely on concurrently working personnel, while full-time personnel be a subsidiary method. Ideological-political work in enterprise groups cannot be altogether uniform, measures must suit local conditions and must be executed flexibly. In the case of some specially large enterprises and conglomerates organized among large-scale enterprises, they will possess great strength for ideological-political work, they will be very complete with regards to personnel and organization, their operational methods will also be well advanced, and they should therefore bring their superiority fully into play, so as to spur on ideological-political work in the subsidiary companies and smaller associated entities.

Ideological-political work in enterprises on the shareholding system must fit the peculiarities of "equal rights among shareholders, same dividends for same number of shares, profits shared equally and risks borne equally among all shareholders." The shareholding system is an organizational system concerning enterprise property. Ideological-political work in enterprises on the shareholding system is meeting up with a comparatively larger array of new conditions and new problems. At the present time, when we shift from the old to the new system, it is necessary, as we experiment with the shareholding system for enterprises, that we engage in exploratory experiments with ideological-political work in enterprises on the shareholding system, so that ideological-political work will conform with the gradual normalization of the shareholding system for enterprises.

Ideological-political work in foreign-invested enterprises shall mainly consist in bringing the exemplary vanguard role of party members and members of the Youth League into play, and, should rely on the strength of the labor unions in initiating ideological education, in initiating cultural activities in the enterprises, and in conducting

ideological-political work among staff and workers. Foreign managers of some Sino-foreign joint enterprises, managing their enterprises according to international practices, are generally not setting up party organizations in their enterprises, do not set aside special times for activities, also do not provide expenses for such. Under these special circumstances, ideological-political work in joint venture enterprises must mainly foster the progressive character of party and league members through the labor union organization by initiating an extensive self-education movement of a mass character.

Ideological-political work in the town and township enterprises shall mainly consist in strengthening the consciousness of ideological-political work among the operators and managers at all levels, and do even more effective ideological-political work along all channels of business and business management. In general, town and

township enterprises do not provide full-time staff for this work, which has mostly to rely on part-time personnel. Most personnel of town and township enterprises come from villages; they must shift from village-oriented ideological-political work to enterprise-oriented ideological-political work.

In short, ideological-political work in enterprise conglomerates, enterprises on the shareholding system, joint venture enterprises, and in town and township enterprises presents many new topics that are worthwhile further research. There are three directions in which our ideological-political work must be accurately conducted: one, upholding the socialist direction; two, effective ideological-political work in areas involving foreign interests; three, gradually creating a labor productivity that is superior to that of capitalism.



## NATIONAL AFFAIRS, POLICY

**Price Management Under Socialist Market Economy**

93CE0175A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 10, 20 Oct 92 pp 12-18

[Article by Hong Feng (3163 1496) et al.: "China's Price Management During the Development of the Socialist Market Economy"; passages in italics as published]

**[Text] I. The Basic Characteristics of the Way Prices Function in China at the Present Stage**

After almost 14 years of price reform, China's pricing mechanisms have changed dramatically. The market mechanisms are beginning to play the lead role in pricing commodities. In 1991, government-set prices accounted for 20.9 percent, 22.2 percent, and 36 percent of society's total retail sales, society's procurement of agricultural and sideline products, and total sales of means of production, respectively; everything else were basically decontrolled. In 1992, in order to develop the pricing mechanisms as quickly as possible to meet the needs of the socialist market economy, the government again decontrolled prices on a full scale and further expanded the scope of market regulation prices. In particular, in the wake of the revision and promulgation of the list of items under price management, nearly 90 percent of the industrial means of production whose prices had originally been set by the state have been decontrolled and put under market regulation. Pricing has become even more market-oriented today.

While market prices now play the dominant role, China's pricing mechanisms have also taken on some of the basic characteristics of the market economy:

First, *instead of the government setting most prices, the market is regulating most prices.* Prices are determined primarily by market supply and demand and are no longer arbitrarily controlled by the government. The government's price adjustments clearly have much less effect on price fluctuations today.

Second, *price fluctuations are playing an increasingly important role in regulating the national economy.* On the one hand, fluctuations of microeconomic prices which are market-regulated are increasingly the main regulator guiding the proper allocation of society's resources and stimulating the economic entities' management enthusiasm. On the other hand, increasingly, fluctuations in the overall price level directly reflect the total supply, total demand, consumption, investment, savings, and other macroeconomic variables and in turn have a major impact on the functioning of the economy at the macroeconomic level and on social stability.

Furthermore, *the link between domestic and foreign market prices has grown increasingly closer.* As reform and opening up continue to expand and the relationship

between domestic and foreign markets grows increasingly closer, the domestic sale prices of many commodities have established a direct link with prices in the international markets. Price fluctuations in the international markets have a growing impact on domestic market prices.

But we should also realize that even though the workings of China's pricing mechanisms are displaying some of the basic characteristics of the market economy, we still have a long way to go to reach the goal of having a socialist market economy. This is seen mainly in the following areas:

1. Although the old economic system has been smashed, the new economic system is not fully developed; there are still serious conflicts between the old and the new systems. For example, today, state-owned enterprises are dependent on the market on the one hand but still dependent on the government on the other hand; double-track pricing is still widespread; wages are set by the market but are still influenced by egalitarianism.

2. The commodities market is fairly well developed, but the market for key factors of production is still underdeveloped, and the prices of key factors of production are still seriously distorted. This is especially true in the state-owned economy where it has been very difficult for capital and the labor force to find their way into the market. This kind of imperfect market system seriously undermines the normal functioning of the market mechanisms and makes it very difficult for prices to play a role in guiding the proper allocation of resources.

3. Price reform has made tremendous progress and market prices are playing a dominant role in pricing, but the restructuring of the enterprise system is lagging behind and state-owned enterprises are inefficient and lack vitality. These also prevent market regulation from playing an effective role.

4. We still do not have a unified, competitive market. The new market order based on fair competition has not been developed, and monopoly by administrative means separatism between central and local authorities, and regional blockades still run rampant.

This situation undermines the progress of price reform and prevents the market pricing mechanisms from playing their full role. It is the cause of the imperfection and immaturity of China's pricing mechanisms at the present stage as manifested in the following areas: Price management is still dominated by administrative measures, and the prices of some important commodities are still too low; the price regulation and control system is imperfect, so that some market prices tend to fluctuate violently; regional price protection and price blockade are still rampant. They prove that China's economic system still falls far short of the needs of the market economy; we are still at a transitional stage as we change over to the market economy, and in this transitional state, the pricing mechanisms have taken on some of the

characteristics of the market economy, but that is far from saying that we have a mature market economy.

## II. The Basic Tasks of Price Management During the Development of the Market Economy

*Given the present market mechanisms, the primary task of the government's price management is to effectively control the overall price level. In a centrally planned economy, the government has direct microeconomic control, and it determines the macroeconomic prices by controlling prices at the microeconomic level. But in a market economy, pricing is already market-oriented on the one hand, and on the other hand, fluctuations in the overall price level now have increasing impact on the economy. Market mechanisms are the most effective means to achieve microeconomic equilibrium, but they are often ineffective in maintaining overall economic balance, which can only be resolved by the government's effective macroeconomic interventions. In particular, at the present stage, China's market mechanisms are still imperfect, the economic structure is poor; we lack resources and capital; the economic entities have little self-restraint; macroeconomic regulation and control are lacking, and adding the urgent need to accelerate economic reform and economic development, the rise in the overall price level has become an increasingly pressing problem which has a huge impact on economic development. Thus, it is the primary task of government price management, and it is also one of the basic goals of the government's macroeconomic regulation, to keep the price level relatively stable, to strive to reduce the magnitude and shorten the duration of spontaneous price fluctuations and deviations from the norm in the market economy, and to create a good macroeconomic environment for economic growth. Thus, the focus of the government's price management must shift from setting microeconomic prices to controlling the overall price level. Only by focusing more on the control of the overall price level and letting the market regulate more commodity prices can we achieve the goals of maintaining macroeconomic control and attaining microeconomic vitality.*

*Another important goal of the government's price management at the present stage is to scientifically set the prices of a handful of important goods and services according to the overall interests of the national economy. We should realize that even in nations that already have a market economy, the prices of some goods and services are still directly controlled by the government. In reality, there is no perfect market system where the market regulates everything and sets the price of everything. Some goods and services have inelastic supply, are not subject to competition, and are critical to the nation's economic and political stability and development, and because the market's spontaneous regulation often lead to monopoly or supply-demand disequilibrium, it can have an adverse effect on resource allocation and on the steady rise in the living standard. Therefore, the prices of this handful of goods and services must still be decided by the government according to the needs of the nation's overall economic development and social development.*

Only in this way can the resources be allocated properly, and only then can there be basic safeguards to the people's livelihood. Furthermore, at the present stage, because China still does not have a fully-developed market and competition is still limited, it is difficult to decontrol the prices of many goods and leave them to whims of the market, and in addition, because of the imperfect market, the prices of some goods that have already been decontrolled are very unstable, and this hurts the producers as well as the consumers. Thus, to some extent, the government must still exercise direct control by setting price limits or price differential ratios. For this reason, at this stage of development of the market economy, more prices will be managed directly by the government than by the market. To manage the prices of these commodities properly is still one of the major goals of state price management. With respect to these commodity prices, we must explore a new management method which meets the needs of the market economy, so that government-set prices can be more scientific.

*Indirect regulation and control of the decontrolled commodities is an important part of government price management in the course of developing the market economy. The reason the government must still exercise indirect intervention of market-set prices is that in reality, the setting and regulation of prices by the market is still a flawed process and must be remedied by government interventions. In particular, China's market is still relatively underdeveloped and the market system is still imperfect, and so the setting and regulation of prices by the market often produce less than desirable effects. For example, because of the imperfect market, the prices of some decontrolled commodities tend to be very volatile, producing misleading market signals which hurt both the producers and the consumers and exacerbate the supply-demand conflict. Also, because of the market imperfections, the circulation of factors of production is sluggish and the price signals cannot play an effective role in allocating resources, and they tend to produce the wrong market signals. In addition, the imperfect market system and unfair market competition and so on have led to market price confusion which hinders normal production and circulation development. A perfect market system is a precondition if market prices are to effectively regulate the economic functions, and if a perfect market and effective competition are absent, the regulatory role of the pricing mechanisms will be limited. This limitation can be remedied by the government's regulation, but such regulation must be based on the market and it must rely on indirect measures. How to develop an effective indirect regulation and control system is an important topic in government price management at this stage.*

*In short, as we develop a perfect price regulation and control system, the three basic tasks of government price management at the present stage are to use comprehensive economic, legal, and administrative measures to effectively control the overall price level; to set the prices of*

*the handful of important goods and services scientifically; to regulate and control market prices indirectly to promote the effective functioning of the market mechanisms and achieve healthy social economic development.*

### III. Effective Control of the Overall Price Level

In the course of developing the market economy, there are many complicated factors that contribute to the fluctuations in the overall price level: There are short-term acute factors and also long-term chronic factors; there are political factors as well as systemic factors; there are the effects of changes in the domestic market as well as changes in the international markets. Thus, *when it comes to stabilizing the overall price level, we must not pin the goal on the changes in the price indexes; instead we must focus our policy measures on the factors that cause prices to rise or fall and coordinate the relationship between the goal of stabilizing the overall price level with the macroeconomic policy goals, including the goals for economic development and for reform and opening up.*

*1. The relationship between stability and development:* Considering the fact that China's per capita income is relatively low, its enterprises' economic efficiency is relatively poor, and the ability to withstand higher prices is fairly limited, the magnitude of increase in the overall price level should be kept fairly low. But China is a developing nation in the midst of reform, and today it has an opportunity of historical magnitude to accelerate its economic growth and vitalize the Chinese nationality. A high rate of economic growth is often accompanied by a rise in the overall price level to some extent. From this standpoint, it is best that we do not keep the overall price level too low. Thus, *to set a proper price increase goal and go the way of "moderate prices and high growth" may be the choice that best suits China's conditions for now and for sometime to come.* In principle, the standard should be to set the upper limit of the overall price level at below the rate of interest on savings or the rate of increase in the people's nominal income, and empirically, this means keeping the rise in the overall price level to around 6 percent, but depending on the needs of reform and development, in some years, the rate may be slightly higher. "A proper overall price increase goal" can avoid triggering another round of runaway inflation and can let us take advantage of the opportunity before us to achieve even faster economic growth.

*2. The relationship between stability and reform:* In China's real economy, the root cause of the rise in the overall price level is primarily the defects in the traditional system and the flaws in the new system that is being developed. These systemic factors can only be eliminated through structural reforms. Policy measures that have nothing to do with structural reform may be able to control the rise in the overall price level in the short-run but will often produce serious side effects or even consciously or inadvertently restore the old system and make it much more difficult to stabilize the overall price level in the long-run. Thus, *when it comes to choosing a policy to control the overall price level, we must*

*focus on long-term benefits and choose the policy that facilitates the thorough restructuring of the economic system: (a) It must facilitate the proper readjustment of the price system. When we control the overall price level each year, we generally should set aside 2-3 percentage points in the price index for readjusting the price of capital goods whose prices are too low. (b) It should facilitate the changing of enterprises' management mechanisms and help stiffen enterprises' budget constraints, so as to overcome their short-term pricing behaviors. (c) It should facilitate the perfection of the market system and help tear down the "administrative fences" that promote market separatism, so as to make exchanges above-board, contractually-binding, and fair.*

*3. The relationship between stability and opening up:* In a market economy where things are gradually opening up, the rise and fall in the overall price level will display more and more characteristics that allow them to transmit international signals, which is something we cannot avoid nor should we overlook as we stabilize the overall price level. Today, when we decide on the goals and policies with respect to the overall price level, we should consider the effects of the following three elements: (a) The effect of foreign debt repayment: China has entered the peak foreign debt repayment period. Each year we have to pay as much as \$7-10 billion in interest and principal, and in order to have sufficient US dollar, we must increase export which affects domestic market supply and jacks up prices. (b) The effects of changes in the exchange rate: In order to increase export and earn more foreign exchange, China must readjust the exchange rates and depreciate the value of its currency again and again. This makes stabilizing domestic prices more difficult. Furthermore, China's foreign exchange reserve and payments and settlement are linked to the US dollar, and the depreciation of the US dollar will make our import goods more expensive. (c) The effects of the international markets: Opening up to the outside world necessarily forces domestic prices to keep up with international prices, and severe fluctuation in international prices inevitably causes domestic prices to fluctuate.

Fluctuations in the overall price level are reflected in a series of price indexes. *Scientific design of a price monitoring system is the prerequisite to thorough, prompt, and accurate forecast of the rise or fall in the overall price level so that correct regulation and control countermeasures can be taken.* Currently, China is mainly using the nationwide retail price index to monitor the overall price level. This index is flawed in many ways in reflecting the range and the duration of fluctuation in the overall price level and cannot reflect the changes in the overall price level accurately, promptly, and comprehensively. In our opinion, we must overhaul the price monitoring system. First, we must add a producer price index. The producer price index reflects the change in the price level of goods and services in the first round of commercial exchange. Relative to the consumer price index, this index clearly relays information faster and reflects the trend of price changes far in advance and is an indispensable index for



monitoring the fluctuations in the overall price level. Furthermore, because it is a comprehensive index that directly gauge the change in industry-wide prices, it can serve as an important reference in enterprise management decision-making. Second, we must improve the consumer price index. The consumer price index reflects the change in the prices of goods and services purchased by the consumers. It is not only an important indicator that monitors the overall price level but is also an important base on which the government formulates its wage policy and tax policy. However, China's present retail price index does not reflect the change in the price of services purchased by the consumers, and so it cannot fully and accurately reflect the change in the overall price level. Today, as economic life in China becomes more market-oriented, rent, medical care, education and other expenses are becoming an increasingly greater part of the people's living expenses, and this makes the compilation of the consumer price index imperative. China already has several years' experience in compiling the retail price index and workers' cost of living index, which can serve as the bases for compiling the consumer price index. To facilitate analysis, research, and forecast of the overall price level, China should also compile an import-export price index that reflects the changes in import-export prices and also a GNP deflator that reflects comprehensively the change in the overall price level.

*To effectively regulate and control the overall price level, we must adopt scientific macroeconomic regulation and control policy measures with primary emphasis on regulating the money supply.* Given the condition that market prices play the dominant role, the method of using direct administrative measures to adjust and set microeconomic prices to control the overall price level is no longer suitable. Management of the overall price level is now mainly through the government's control and regulation of the macroeconomic quantities. The overall price level is determined by the relationship between total demand and total supply. The ability to change the total supply in the short-run is fairly limited, and therefore supply-demand equilibrium is determined mainly by the change in total demand. Because the velocity of circulation of money is relatively constant at a given time, in the short-run, the fluctuation in the overall price level is determined by the money supply. Thus, the government's regulation and control of the overall price level should be mainly in regulating the money supply. When we consider the complicated nature of the economic process and the time-lag in the monetary policy, random money supply plans are very susceptible to the interferences of abnormal factors and will often artificially exacerbate the conflict between supply and demand and cause severe economic fluctuations. Thus, an effective way to regulate the money supply is to set a relatively steady rate of increase in the money supply.

In regulating and controlling the overall price level, we should also pay attention to complementing and coordinating the financial and monetary policies. If financial deficits cannot be remedied by means of issuing public

debts, then the only other means is through bank overdrafts, which will add pressure to issuing more currency. In the past, China's over-issuance of currency was caused mainly by the financial deficits. In recent years, with the issuance of public debts, such tendency has diminished, but its negative effects still should not be overlooked. In the future, we must continue to adhere to the principle of maintaining basic balance of revenue and expenditure, and even if we should incur financial deficits, they should as much as possible be remedied through the issuance of public debts. Furthermore, we must perfect the existing tax system and use the tax lever skillfully to regulate and control the overall price level. When total demand expands and the overall price level rises, we can raise taxes to curb the excess increase in consumption and investment. When total demand is inadequate and the overall price level declines, we can lower the tax rate to stimulate consumption and investment.

Regulating and controlling the overall price level also include formulating and implementing scientific industrial policies and "shortening the long line and lengthening the short line"—producing less of what we have a surplus of and producing more of what we have a shortage of—to promote effective increase in total supply, and we must balance and coordinate society's mix of supply and mix of demand. Using legal means to forcefully freeze product prices is also an important, indispensable means to regulate and control the overall price level in an emergency when we are facing runaway inflation.

#### IV. Scientific Management of State-Set Prices

Direct management of a handful of important goods and services is an important guarantee of healthy social-economic development. In the course of developing the market economy, the prices of the following three major categories of goods should be directly set by the government: One, goods that are highly monopolistic in production or management, such as petroleum, natural gas, postal service, telecommunications, railway, piped gas, and running water; two, public utilities which have a major impact on healthy social-economic development, such as environmental protection, education, medical care, and public health; three, goods that should be decontrolled in the long-run but whose prices must still be set by the government at this point because of the underdeveloped market and inadequate market regulations, such as coal, iron and steel, civil aviation, water transport, and a handful of agricultural products.

There are many drawbacks to letting the market regulate the prices of the above categories of goods; it can produce many ill effects, and therefore their prices should be set by the government. Thus, *the purpose of letting the government set prices is not to passively reflect market supply and demand and imitate market regulation but to start out from the interest of the economy as a whole to remedy the inadequacies of pure market regulations to achieve proper resource allocation and promote healthy social-economic development.* For this reason,

first, we must make sure that the government-set prices are scientific. The core to scientific pricing lies in implementing reform of the pricing mechanisms and properly delineating the scope of government-set prices, and thereupon we must overhaul the governments ways and means of setting prices to meet the needs of proper allocation of resources.

Starting out from the needs of proper allocation of resources, government-set prices cannot be as fixed and rigid as they used to be under the traditional system, nor can they fluctuate up and down as aimlessly and frequently as market prices; they cannot be alienated from cost and supply and demand as they used to be under the traditional system, nor can they submit completely to the regulation of short-term market supply and demand like market prices. Government-set prices should be flexible but relatively stable; they must take into consideration market supply and demand but also submit to the government's macroeconomic goals and meet the need to improve the nation's overall economic efficiency. Only in this way can they facilitate the proper allocation of resources and the healthy development of the economy and society.

*The government's actual method of setting prices should be based on the proper allocation of resources and take into consideration the different characteristics of different trades and industries and China's real conditions, and it should reference other governments' experiences in setting prices before deciding on its own method.* Generally speaking, for industries that are highly monopolistic in production or management, such as power, postal service, and railroad, prices should be based on average profit and set according to the state's industrial policy. For industries that need encouragement and development, prices should be set so that their profit is higher than the average profit. For restricted industries, prices should be set so that their profit is below average profit. For natural monopolies, such as petroleum and natural gas, prices should be based on the long-term marginal cost. For public utilities that have a major impact on our healthy economic and social development, such as medical care, public health, and environmental protection, fees should be based on cost, and at the same time they should be given tax breaks and financial subsidies and other means of support. For products which in the long-run should be decontrolled but whose prices are still set by the government because conditions are not ripe yet, their prices should be based on average profit, and we should rely more on such format as setting median price range, so that as much as possible these prices reflect market supply and demand.

*To make government-set prices scientific, we must adopt flexible and diverse pricing formats.* Fixed, mandatory prices directly promulgated by the government is an important form of government-set price, but it is not the only form. As much as possible, we should rely on variable pricing formats which are more flexible. They include setting minimum protection price and maximum ceiling price and median price range and other

formats. We can also have some pricing formats which allow producers and consumers to take part in setting prices to some extent—such as government-set merchandise prices and government-approved list prices.

*To make government-set prices scientific, we must also set up a scientific, standardized pricing procedure.* To promptly reflect the changes in external conditions and prevent government-set prices from being too rigid and inflexible and unrealistic, we must readjust prices promptly and announce the government-managed prices regularly. Generally speaking, it is not only necessary, but possible, to announce the government-set prices once a year. This not only will make those prices reflect real changes but will make them more above-board to win the producers' and consumers' understanding and consensus. It will also help the price signals regulate and guide production and consumption. The pricing procedure should be standardized by means of laws. In the pricing process, the various economic entities must have clear rights and obligations, so that there are laws to back the government-set prices and laws to guide enterprises' and individuals' pricing behavior.

#### V. Indirect Regulation and Control of Market Prices

Government-decontrolled, market-regulated prices are now primarily set by enterprises while the market acts as the pricing mechanism, and so when the government manages these prices, it can only rely primarily on indirect interventions.

*One, after the right of enterprises to set prices has been expanded and put into effect, the government should provide all types of services to standardize enterprises' pricing behavior.* Enterprises, especially state-run enterprises, have not completely changed their management mechanisms; they are not truly commodity producers who can make their own management decisions and take responsibility for their own profits and losses, and they cannot respond quickly to the price signals. Therefore, the government must further expand enterprises' power to set prices and adopt tight measures to monitor and prohibit the lower level governments from keeping this power for themselves, so as to make sure that enterprises truly control the power to set prices and in turn help them change their management mechanisms as soon as possible, so that prices can truly play a role in the proper allocation of resources. Meanwhile, the government should also provide all types of services to help enterprises adjust to the market regulations as soon as possible and to make proper use of their power to set prices. (a) It must help enterprises familiarize themselves with the state's pricing policies and laws and regulations and master the skills of competing under the market price system. It must improve the cost and price accounting systems and help enterprises make better management decisions. (b) It must provide enterprises with market and price information and help them make prompt and accurate management decisions and adopt proper pricing policies in response to the changes in market supply and demand. (c) It must offer consultation on

price matters and mediate fairly the price disputes among enterprises, while reducing the economic losses incurred by those involved in the price disputes and guaranteeing smooth commodity exchange. What is worth serious attention is that as the economy becomes more market-oriented and as the government's functions change, the government's role as mediator of price disputes among enterprises can be very important.

*Two, upon developing and improving the market system, the government should also establish a new market pricing order and create the environment for fair competition.* Proper equilibrium price is predicated upon having market mechanisms that are completely competitive. But at the present stage, China's market system is incomplete and the market mechanisms are imperfect. Administrative separatism is rampant in the commodity market, the capital and labor and other markets for key factors of production are very undeveloped, and the nation's unified market system is very incomplete. Market monopoly is widespread, and many transactions are not conducted in public and there are no contracts and no money to change hands. The market mechanisms are quite imperfect. Incomplete and imperfect market often entices those who engage in trade to adopt short-term, improper exchange and pricing behavior. Thus, on the one hand, the government must further broaden the scope of goods and services to be regulated by the market and gradually decontrol the markets for assets, real estate, finance, technologies and so on; it should establish different types of specialized and comprehensive wholesale markets and futures markets; it should eliminate regional, industrial, and departmental restrictions that block commodity circulation and form a unified, complete market system to increase market competition. On the other hand, as the market gradually matures, it should establish different market exchange rules, regulations, and systems to promote the formation of a new market order. The heart to establishing market order lies in using the law and rules and regulations to curb market monopoly and other types of improper competition and create and protect the environment for fair competition. The emergence of natural monopolies in the economy is due mainly to the fact that some resources are scarce and therefore can be monopolized. Thus, the government should formulate appropriate laws and rules and regulations according to the degree of scarcity of different resources and as much possible create the opportunity for fair competition for the possession and use of those scarce resources and choose the most qualified enterprises to possess and use those resources through market competition. At the same time, the government should also consider imposing a resource tax or regulation tax or use other measures to appropriate a part of the profit generated by the monopolistic prices. As for administrative monopoly in our economic life, the government must curb the phenomenon by accelerating the separation of government and enterprises and changing enterprise management mechanisms and formulating the "Law Against Improper Competition."

*Three, upon choosing and determining the "security line" of market prices, the government should improve the indirect regulation and control measures and rectify the errors in market regulation.* Depending on the actual situation, the government can set price boundaries for some key commodities whose prices are market-regulated, and it can come up with different "backup programs" for regulation and control. If prices are fluctuating within the normal boundaries, the government should limit its intervention or refrain from interfering altogether. Once prices exceed the normal boundaries, the government should promptly execute its "backup program" to restore prices to within the normal boundaries. This not only shows that the government's regulation is a higher-level regulation which cannot be replaced by market regulation, but it also reflects the moderate and flexible nature of government regulation. While defining prices' "security line" and formulating "backup programs," the government should also develop and perfect a system of indirect regulation and control of market prices: (a) It should set up a fund regulation system. This system is made up of two main parts: One part is the "market basket" price regulation fund. It is primarily for stabilizing the sale prices of the most basic goods of sustenance such as grain, oil, meat, eggs, and vegetables. The other part is the agricultural price support fund. It is used primarily to support agricultural product procurement prices. That is, the government may decide on a list of major products which require price support to sustain output and protect the peasants' income, and if the market price of these products should fall below the support price, money from this fund will be used to purchase those products at the support price. (b) It should develop a stockpile regulation system. The government should have a fairly ample stockpile of grain, cotton, petroleum, and other strategic goods and materials in case something unexpected happens in the economy, and by putting in and taking out these goods it can regulate prices and stabilize the economy. (c) It should develop a reference price system. Through its market management activities, the government can get hold of and make use of information on the amount of goods in the market, the amount of market demand, the cost of merchandise purchased, and conditions of similar markets in different regions. It can promptly compile reference prices for different types of commodities and list those prices in the market and use different media and channels to publicize those prices as a way to guide market prices. (d) It should develop a social monitoring system. The government must insist on complying with the law to monitor market prices and bring the supervisory power of the news media, social groups, and citizen reporting into play. It can also use severe administrative crackdown and strong public opinion against the crooks and the bullies in the market, against people who short-change their customers, and against those who sell counterfeit or inferior products as a means to maintain normal market price order.



### Large State Enterprises Face Problems

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[Article by Li Zhigang (2621 1807 0474): "Problems Faced by Large Enterprises and How To Deal With Them"]

#### [Text] I. Problems Faced by Large Enterprises

The economic performance of enterprises in the basic industries, particularly the old ones, has generally been on a rather steep downside in the past few years. Take the Shanghai Smelting Plant as an example. The plant's total industrial output value was 850 million yuan in 1990 (calculated according to 1980 constant prices), about the same as in 1989, but its profit in 1990 was only 15.03 million yuan, a 68 percent drop from 1989. The main reasons are basically the old enterprise's own inherent shortcomings and its inability to adapt to the rapidly changing external environment.

1. The lack of raw material sources, plus the reduction of raw materials provided under mandatory state plans, makes it impossible to guarantee the availability of raw materials.

With the growth of the market economy, the state's mandatory plans have been reduced year after year. The Shanghai Smelting Plant's main production raw material, crude copper, was 100 percent allocated by the state in the past. It has been reduced year after year to 25 percent now. With no alternate source of the raw material in Shanghai, the shortage forced the plant to change its raw material mix, and reclaimed copper was used together with crude copper. The proportion of reclaimed copper increased gradually from 23 percent to 50 percent and again to 61.5 percent by 1990. Owing to the worsening of the raw material mix, the production process has been modified accordingly, and the production environment and costs have also changed greatly. The average smelting time for each heat of copper has increased by about 10 hours, 40 percent longer than before, and the consumption of power, fuel, and other production costs have also increased as a result. The reclaimed copper causes serious pollution, and the plant is forced to invest in additional pollution control equipment, which further increases its economic burden. Because the absolute quantity of crude copper cannot be guaranteed, and because supplies cannot arrive evenly at the plant, it is very difficult to organize production, and sometimes the plant has to use all reclaimed copper for production, further increasing power consumption and pollution. At the same time, because of the fierce contention for reclaimed copper in the raw materials market, it is difficult for the plant to purchase nearly 70 percent of its raw materials, which also makes its smelting costs relatively high. In the past few years, 21 town and township copper smelting and processing enterprises with a combined annual production capacity

of 150,000 tons of electrolytic copper have been set up in Jiangsu and Zhejiang provinces alone. Compared with the Shanghai Smelting Plant, these enterprises are characterized by their high energy consumption, low quality, and low resources utilization ratio. Nevertheless, because of the "financial contract system," the "system of dividing revenue and expenditure between the central and local governments," and other policy reasons, they have become the local governments' "revenue sources" and are supported and protected by the local governments.

2. The unreasonably small operating funds, incompatible with the need to purchase raw materials at higher prices from the market, causes a serious shortage of capital.

The amounts of operating funds allocated to the old enterprises, generally determined in the 1950's or 1960's, are very small. The operating funds actually used by the Shanghai Smelting Plant in 1989 amounted to 174.8 million yuan, more than four times the amount allocated by the state. Under the present state policy, the old enterprises are to rely basically on the market for raw materials, distribute most of their products according to state plans, and also must meet the output and output-value targets set by the state. The enterprises are forced to raise their own funds by borrowing or other means to purchase raw materials at higher market prices. The higher prices for raw and other materials and energy and the use of profits to pay interests are the major reasons for the downside of the economic performance of the old enterprises.

3. The imbalance between input and output and obsolescence of equipment, incompatible with the commodity economy, makes development difficult and momentum lacking for the old enterprises.

For a long time, the state has invested little in the old enterprises, but demanded a lot from them. As of the end of 1989, the fixed assets of the Shanghai Smelting Plant was valued at only 109 million yuan. From 1949 through 1989, the plant turned over to the state a total of 1.362 billion yuan in profits and taxes, enough to build 12.5 new plants of its present size. Because the state for some time failed to pay attention to the technological transformation of the old enterprises, and because the old enterprises are short in depreciation funds (the 1989 depreciation funds totaled only 6.4 million yuan), they are unable to carry out technological transformation. Thus for many years the old enterprises have been operating at full capacity without needed replenishment and improvement. Their plant buildings are small, crude, and crowded, and their equipment are obsolete. It is difficult for them to develop new products, and they lack the necessary material means to improve product quality. Their advantages shrinking and disappearing, the old enterprises do not have the momentum for development, and their capacity for market competition is declining.

## II. Measures To Invigorate the Large Enterprises

In addition to improving the quality of all their workers and staff and paying attention to appropriate technological transformation, to invigorate the large enterprises, it is imperative to change them from the production type to the production-and-business type.

In the period of the planned economy, the state monopolizes the allocation of raw materials and marketing of products for the old enterprises in the basic industries. The enterprises' main activity is production of goods, and their business is traditionally the fulfillment of contracts according to state plans, basically of the pure production type. The market economy is forcing the old enterprises to change their operational concept, system, scale, tactics, and method from the production type to the production-and-business type so that they can take advantage of their solid management foundation, high product quality, popular products, large market, technological strength, and new products development potential to accelerate production development with flexible and effective management and achieve the best economic results.

1. To bring managerial superiority into full play, it is necessary to combine industry with trade. Effective internal management of enterprises is the guarantee for high quality production. Only with good management will an enterprise be able to achieve high quality, low consumption, and high output, with which to provide a solid material foundation and price advantage for its business operations and increase its market competitiveness. The old enterprises have a complete management system and mature management experience, which are both an advantage and a potential. The production department should make timely readjustments to production according to feedbacks from the business department on changes in market demands. Successful business operations can accumulate funds for the enterprise and increase its ability and momentum to grow on its own. Only by bringing the old enterprises' managerial superiority into full play and organically combining production with business operation, will it be possible to put the enterprises in a sound economic cycle.

2. To bring technological superiority into full play, it is necessary to combine technology with trade. That science and technology is the first productive force has become a common understanding of all countries in the world. It is necessary to bring the old enterprises' technological advantage into full play, put the emphasis on developing new products and improving product quality, and combine technological work closely with business activities. Information on the market fed back by the business department to the technological department should be carefully studied, and all-out efforts should be made to solve key problems, produce more scientific and technological results, turn them into production as quickly as possible, put new products on the market, and increase the vigor with which to do business. Technology is the guarantee for production quality and

the success of business operation. A business must have the technology to guarantee the quality of its products in order to maintain a firm domestic market and expand into the international market. Technology should also be business-oriented. One aspect of the technological business is to make use of our advanced technology and engage in technological export.

3. To bring the strength of large- and medium-sized enterprises into full play, it is necessary to integrate town and country. The integration of large- and medium-sized enterprises with township and village enterprises in different forms is a more effective way. Particularly the old enterprises can bring township and village enterprises in the same trade or business around themselves in the form of loose or tight associations or by annexation, turn competitors into partners, and transform the township and village enterprises into specialized "satellite plants" supporting and serving the big industries.

4. To bring the group advantage into play, it is necessary to integrate the trades. Enterprises in the same business can join together as a trade group, which in turn can work together with specialized foreign-trade enterprises and jointly expand foreign-trade channels and markets. In this way, they can have the advantage as a trade group. The entire group is like a huge serialized production line. The enterprises can develop the strong points, avoid the weaknesses, and prevent conflict among themselves, and they can on a mutual beneficial basis offer trade opportunities to each other and enjoy the advantage of a large scale trade group.

5. To bring the geographical advantage into play, it is necessary to integrate domestic trade and foreign trade. Domestic trade and foreign trade are inseparable components of trade as a whole. Enterprises should base themselves on domestic trade and develop foreign trade, which is not only necessary for their own survival and growth, but also in keeping with the requirements of reform and opening to the outside world. Domestic and foreign trade should be placed under one unified management system, so that the two types of trade will move forward side by side, holding fast to both the domestic and foreign markets. Foreign trade should support domestic trade, using foreign resources to make up domestic shortages. Domestic trade should help promote foreign trade, striving to earn more foreign exchange and increase the economic strength of the enterprises.

6. It is necessary to take advantage of Shanghai's position as a financial center to integrate finance and trade. Participation in the activities of the banking industry is an important new business activity of enterprises. At present, a new banking system has been formed in Shanghai with the Central Bank as the leader, the national banks as the mainstay, and the coexistence of diverse banking institutions, which has made it possible for enterprises to take part in the financial business. By integrating trade with finance, an enterprise can raise funds through its own financial operations, which is more convenient and beneficial than borrowing, paying less or no interest, even making a profit.

# Gao Shangquan on Reform Role of Socialist Market Economy

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[Article by Gao Shangquan (7559 1424 0356)]

[Text] At present, we must accelerate the pace of reforms surrounding socialist market economic system reform goals.

1. Speed up the pace of reforming enterprises. Establish a modern enterprise system, and make enterprises truly become the main stay of the market.

Enterprises must exist and develop under market competition. Market competition is the basis of a market economy. Without competition, there is no market economy.

To adapt to the market economy, we must establish a modernized enterprise system with the following characteristics:

First, all activities of enterprises must be centered around the market. They must revolve around the market and become the main stay of market activities.

Second, we must change the position of enterprises as belonging to the government, and make them become truly autonomous operating bodies. If enterprises lack autonomy, they will not be active. This is the first item to implement in transforming enterprises.

Third, enterprises must create profits, be responsible for their own profits and losses and self-limiting.

Fourth, under equal market competition, enterprises will develop independently with the superior ones flourishing and the inferior ones weeded out.

2. Accelerate the pace of price reform, establish uniform opening to the outside and an orderly market competition system.

Prices are a core element of the market. They are the signals and yardsticks of economic operations. Price fluctuations reflect the scarcity of commodities and manifest laws of value. Pricing mechanisms must be instituted gradually by creating mechanisms for the state to readjust and control the market and market determined pricing. Excluding a very small number of monopoly commodities and public utilities, prices of other commodities must be gradually liberalized, allowing the market and enterprises to set prices.

A market economy requires that all elements of production enter the market. We must create a modernized market system centered on the financial market. We must pay particular attention to developing markets for finance, labor, technology, information, property rights, and real estate.

China's real estate market is in its infancy. Only one percent of urban land is on the market nationwide. In Shenzhen the figure is no more than 10 percent. Nationwide, 99 percent of land resource allocation is subject to administrative control. With a good plan, any unit can approve and turn a large plot of state land into departmental property, leaving the area they wall in to lie fallow. Land resources are well utilized in some countries, constituting an important source of fiscal income for the state. However, because most of China's urban land is transferred freely and is subsidized by the state, it does not bring the state fiscal income. China's real estate market still is weak. A certain city's fixed real estate assets account for 15 percent of the entire city's total fixed assets, but only one percent of national product. In a prosperous area, each square meter of commercial space generates 5,000 yuan in profit, but land tax is only 84 yuan. How to allocate land rents remains to be studied.

Financial markets hold an important position in market economies. There is little risk on the present bond market, so we should accelerate the dynamics of reform. The stock market should be cultivated in line with the enterprise stock system. We cannot rush into it headlong but must be concerned with quality and results, doing a good job of regularization.

3. Accelerate the transformation of government functions. Establish a macroeconomic readjustment and control system suited to socialist market requirements.

A market economy is not omnipotent. It is limited, insufficient and ineffective in some ways. Therefore, after the second world war, some countries generally augmented government intervention with the aim of making up for market deficiencies and correcting inefficiencies so as to perfect the allocation of resources and have better results. A modern market economy should effectively bring into play government's role and the function of planning. For example, the macroeconomic readjustment and control goals of Germany's social market economy are to: first, stabilize currency; second, realize full employment; third, stabilize the international budget; fourth, maintain appropriate economic growth. Korean Government intervention is in five main areas: 1) preventing overcentralization or monopolization of commodities; 2) correcting serious value deviations where commodity prices are unable to reflect social costs; 3) when market mechanisms do not function, ensuring normal supplies of public utilities and important long-term investment; 4) protecting "nascent industry" development; 5. controlling natural monopoly enterprises from deviant market behavior. The government effectively intervenes in:

One, handling the relationship between government intervention and the role of the market. Government intervention cannot affect the role of the market. The government generally adopts indirect means to guide enterprises. It does not have a hand in their actual operation.



Two, the relationship between the government and enterprises. In setting economic and industrial policy, the government must take note of the opinions of enterprises through prior consultation and consensus. It creates good cooperative relationships by respecting and developing corporations.

Three, management is quite efficient through clear government functioning. Government must have a rather strong management capability and crack organizations.

How do government economic management functions evolve? Which way should they go? I believe that, first, they should evolve from direct to indirect involvement. Second, from their former microeconomic to macroeconomic control. Third, change from the former function of examining and approving the economy, approving projects, allocating funds and resources to using mainly economic levers, to planning, coordination, supervision and providing services. That is to say, let the market and enterprises do whatever they can. Let the government do what they cannot.

4. Establish a social security system suited to the socialist market economy.

The socialist market economy must be highly efficient as well as preserve social justice and provide social security. We must accelerate reforms of the unemployment insurance system, expand the scope of insurance to include all employees of collectives, private enterprises, and the "three kinds of investment" enterprises, not just state-owned enterprises. We must provide basic life insurance for employees of bankrupt enterprises and those awaiting employment due to streamlining.

5. Accelerate economic legislation, set up a legal system of market order suited to the socialist market economy.

Basic responsibilities of the socialist market economy are to establish market order and normalize and improve the legal and supervision systems for enterprise activities. Legislation in this respect must now be accelerated.

We must oppose improper competition in implementing a socialist market economy. The "anti-monopoly law" must come out quickly.

#### **Gao Shangquan on Breakthrough in Socialist Economic Theory**

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7 Nov 92 p 1

[Article by Gao Shangquan (7559 1424 0356)]

[Text] Different people have different opinions about a market economy; it is difficult to pin down a definition. As I see it, the so-called market economy is suited to the objective demands for large socialized production and market internationalization. The market is a form and means of allocating resources. The socialist market economy is a market economy that upholds the basic socialist system as a prerequisite; it is a market economy

under socialist conditions. The market economy is general, socialist conditions are specific.

The 1984 "Decision by the Central Committee of the CPC Regarding Reform of the Economic System" noted that the socialist economy is a planned commodity economy based on public ownership. One title used was "developing the socialist commodity economy." Since then, the commodity economy has had a legal right to exist. A planned commodity economy is a great theoretical breakthrough. Our major successes since reforming are inseparably related to the theoretical guidance of the planned commodity economy.

The market economy is a high level of development of the commodity economy. I believe the socialist market economy is a continuation and development of the planned commodity economy. It is a continuation because the commodity economy and market economy are inseparable. The social division of labor and production materials belong to different interest groups; they are the basis of both a market and commodity economy. A market economy is the natural outcome of large socialized production when it reaches a certain stage.

Its development is seen in the following:

First, the wording socialist market economy implies that China's economic operations are based in the market. The old phrase, planned commodity economy, is entirely correct but easily causes different interpretations. Some understand a planned commodity economy as a planned economy which has commodities, or a planned economy. The term socialist market economy is clear; it is a socialist economy based on the market. There used to be a rigid theory which held that planning was one thing and the market another. Some advocated that large- and medium-sized enterprises must be directed in order for small-sized enterprises to be readjusted by the market. This rigid interpretation has no basis since the term socialist market economy was proposed.

Second, a commodity economy stresses exchange and production, while a market economy lays more stress on means of allocating resources. The stresses of each differ. In the latter case, there is an emphasis on the basic role of using market mechanisms to allocate resources. This is closer to the essence of the economic system. It is more accurate than the wording, commodity economy. It more scientifically reflects the aims of reforming China's economic system.

Third, a socialist market economy naturally compels all elements of production to enter the market. The basic conditions for normal market operation include entry of the labor force, land and mineral resources on the market.

Some say that a market economy is but privatization or capitalism which denies the leadership of the party. There is no basis to this.



A market economy is not the patent of capitalism. It is the natural outcome of the social division of labor and large-scale socialized production once they have reached a certain stage. The operation of a socialist market economy basically is similar to capitalism. There is no issue of calling capitalism socialism since it is the fruit of human civilization. A socialist market economy essentially differs from a capitalist economy on the basis of ownership. A socialist market economy is characterized by its relationship to public ownership; it is a market economy with a public ownership base. A capitalist market economy is related to private ownership; it is a market economy with a private ownership base. Of course, at the present stage the structure of ownership cannot be entirely pure. In the course of developing a market economy, the ownership structure will change with different types of ownership crossing. Each will be strong in its own way. Some state-owned enterprises issue B stocks, so foreign investment has flowed in. Other enterprises have worker-managed stocks. They are not entirely pure state-owned enterprises. Some state-owned collective enterprises hold stocks. Legal bodies and individuals also hold stocks. These are not pure collective enterprises either. Some privately run enterprises have cooperative shareholding, and there are publically owned shareholders. The intersection of various kinds of ownership systems constitutes a mixed economy. The trend appears to be unavoidable. However, considering society overall, the publically owned economy must play the role of leader. How large are appropriate shares of various ownership systems in the economy, whether they are more or less, depends on whether they are advantageous to developing production. Another characteristic of the socialist market economy is that it exhibits distribution according to labor as a guiding principle while other forms of allocation coexist. It must have a balance between efficiency and equality. In the realm of social allocation, initial allocation reflects differences in efficiency. Reallocation reflects social equality, leading ultimately to the realization of general wealth.

Considering practice at home and abroad, the crux of the matter is the pressure of market competition and flexible operations. XINGFU magazine gave statistics on 500 large-scale non-American companies in the United States, 71 of which were publically owned. Of the 500, the publically held accounted for 19 percent of the sales volume, 21 percent of total capital, and 21.4 percent of the total number of employees. A World Bank analysis of these publically held companies found that their success was mainly due to the pressures of market competition and flexible operating mechanisms. There are successful publically owned enterprises and failing private enterprises. Therefore, a market economy is not equal to privatization. A socialist market economy can be based on public ownership.

### Struggle Noted in Adopting Socialist Market Economy

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[Article by Gao Lu (7559 6242): "Seemingly Easy Struggle of Adopting Socialist Market Economy"]

[Text] By approving the report presented by Comrade Jiang Zemin on behalf of the 13th CCP Central Committee and by declaring in no uncertain terms in its resolution that "the affirmation of the creation of a socialist market economy as the goal of restructuring China's economic system both enriches and advances the theory of building socialism with Chinese characteristics," the 14th CCP National Party Congress formally adopted the concept of a socialist market economy. The adoption of the socialist market economy went through a process. In the beginning, it was the idea of just a handful of people. Subsequently, what started out as a "personal opinion" became a resolution formally adopted by the party. Let us open historical documents not yet covered with dust to trace the evolution of this historic development.

### The Philosophy Adopted in the Spring of 1979: Emphasize Planned Economy, With Market Regulation as Supplement

The Third Plenum of the 11th CCP Central Committee, which convened in September 1978, decided to shift the focus of all national and party work to socialist modernization. At the same time as it resolved to focus on economic work, the party also decided to reform the existing economic management system. How? Before the plenum, the State Council had held several meetings between July and September 1978 to discuss the ideological guidelines. Similar discussions took place at the plenum. But no formal plan had emerged by then.

Following the closing of the Third plenum of the 11th CCP Central Committee, the top decision-making echelons began considering in depth the principles and direction of economic restructuring in China. After reviewing the lessons of history, they came to the following major conclusions: 1) What was wrong with the traditional Chinese and Soviet economic systems was that they ignored market regulation even as they sought to develop the national economy proportionally in a planned way. So-called market regulation means regulation based on the law of value. 2) There must be two economies throughout the entire period of socialism. One is the planned economy, the one that runs the national economy proportionally in a planned way. The other is one regulated by the market. In this economy, there is no planning. Production is based on changes in market supply and demand. The first economy is "basic, primary," the second "subsidiary, secondary." It is essential, but can only be a "useful supplement." 3) The shares of the two economies in each sector must be decided just right. 4) The share of the planned economy does not necessarily have to increase at the expense of that of the market economy. It is not a zero-sum game. Both can expand at the same time.

Based on the above understanding, leading CCP Central Committee comrades proposed the following at the central working conference held in April 1979 to discuss economic issues: "Emphasize the planned economy in the overall national economy, while paying full attention

to the supplementary role of market regulation." Important products that impact the national economy and people's livelihood should come under centralized state planning. The state should be responsible for their price setting and distribution in a centralized manner. In the case of other products, it would be up to the enterprises to determine how much to produce depending on market supply and demand. The state should use economic legislation, economic policies, as well as other economic tools like taxation, credit, and prices to "regulate the market." This proposition was the basis for the "Preliminary Opinion on the Overall Scheme for the Restructuring of the Economic Management System" drafted by the restructuring of the economic system office of the finance committee of the State Council.

The philosophy which crystallized in the spring of 1979 was summed up as "emphasize the planned economy, with market regulation as a supplement" in the report presented to the 12th CCP National Party Congress. In effect it became the guiding thought behind China's economic reform from 1979 through 1984. No doubt it represents a historic leap over the traditional philosophy in which a socialist economy was equated with total command economic planning.

"Crossing the river by groping for rocks." In the course of economic reform, the first "rock" China groped for was precisely the one that combined planning with the market.

It was the economic theoretical community that first talked about "combining the planned economy with the market economy" and put forward the idea of a socialist market economy.

The ideological line of "seeking truth from facts" established by the 3d plenum of the 11th CCP Central Committee broke the straitjacket that had restricted our thinking and sounded a march to welcome the arrival of spring. With winter gone and spring coming, the economic theoretical community came to life as 100 schools of thought contended. The discourse revolved around the major topic: "the law of value in the socialist economy." First there were several small-scale seminars and symposiums. Then in April 1979 a large national symposium was held in Wuxi by the units involved. In speeches delivered and papers presented at the symposium, it was suggested that the market economy is an inevitable product of socialist commodity production. "The planned economy and market economy should be integrated and interwoven with each other. The planned economy must fully utilize the market economy." "The socialist market economy is a new market economy based on the public ownership of capital goods." At the time this proposition was not acceptable to most people. Those who disagreed with it argued that the concept of a market economy was imprecise, that the notion of there being a planned economy and market economy was unscientific, comparable to the idea of "combining the whole with the part," and that the socialist economy must be a planned economy.

"It is better to have a battle of words than otherwise." The subsequent events bear out the truthfulness of Mao Zedong's famous saying. The exploration and debates within the economic theoretical community during this period energized everybody's thinking and inspired people concerned about the country's fortunes and things of fundamental importance to think long and hard.

Comrade Deng Xiaoping was thinking long and hard too.

In November 1979 Comrade Deng Xiaoping said something that shocked everybody: People who practice socialism can also create a market economy, a socialist market economy.

The morning of 26 November 1979. Beijing Room, the Great Hall of the People in Beijing. Deng Xiaoping was in the midst of a cordial conversation with friends from the United States and Canada.

The guests were Frank Jibuni [0679 1580 1441] and Paul Armstrong, vice presidents of the American Encyclopedia Britannica Publishing Company, Professor Lin Daguang [2651 6671 0342], director of the Center for East Asian Studies at McGill University in Canada, and his wife. The purpose of their visit was to discuss the publication of a Chinese edition of Encyclopedia Britannica in cooperation with the Chinese. They had hopes of meeting leaders from the Chinese Government who would brief them on the new situation in China and its new policies and were pleasantly surprised when Comrade Deng Xiaoping, then vice premier, met with and talked to them.

The meeting lasted from 1000 to 1130. During the meeting, Comrade Deng Xiaoping explained to them the goals of reform and development in China and the basis for achieving the four modernizations. Jibuni asked about the possibility of China developing some kind of a market economy within the framework of the socialist system at some point in the future.

Jibuni's question presupposed the existence of the market economy outside the socialist economy. It also assumed that the market economy is opposed to the socialist economy, an economy that is essentially capitalist and belongs to private ownership. Professor Lin Daguang went on to ask, "Do you think there is a need to expand the role of the noncapitalist market economy under the guidance of the socialist planned economy?"

Comrade Deng Xiaoping answered decisively, "It is inaccurate to say that the market economy is limited to the capitalist market economy. Why can't socialists put together a market economy? We can't call that capitalism." He noted that a market economy is not necessarily capitalist. "A market economy emerged back in feudal times. Socialists can also put together a market economy."

The guests were struck by the novelty of these words, the likes of which had never before appeared in official Chinese documents, and probably felt other complex emotions too.

By differentiating market economy from the capitalist society that once thoroughly exploited it and regarding "capitalist market economy" as only one kind of "market economy," not only do we strip capitalism of its monopoly on market economy, but we also powerfully prove that "socialists can also put together a market economy." What profound theoretical thinking!

What kind of scenario would it be for a country that takes the socialist road to "put together a market economy"? In his conversation, Comrade Deng Xiaoping said, "We emphasize the planned economy, but we also integrate it with the market economy, a socialist market economy. Certainly the methods would basically be similar to those of capitalist society, but there would be differences as well. We are talking about relations within ownership by the whole people, but, needless to say, there will also be relations between ownership by the whole people and collective ownership, and with foreign capitalism. In the final analysis, however, it is socialism we are talking about. This is a socialist country." He said, "By the same token, emulating the good stuff of capitalism, including management methods, does not amount to practicing capitalism but is socialism using those methods to develop social productive forces." He also noted that these methods would not undermine socialism as a whole.

Comrade Deng Xiaoping also said during the conversation, "Certainly we don't want capitalism. But the socialism we want is one which is developed, where productive forces are advanced, and which will make the nation powerful and prosperous. The superiority of socialism should demonstrate itself in its greater ability to develop social productive forces. This should have been possible. However, people had a different interpretation back then, so the process was delayed."

Probably because this was merely a ceremonial encounter between a Chinese Government leader and foreign friends from the cultural community, leading newspapers at the time covered the event with a report of less than 200 characters accompanied by a photograph. Not a word was said of the substance of the "cordial conversation" between Vice Premier Deng Xiaoping and friends from the United States and Canada. Still, it was not long before word of Comrade Deng Xiaoping's speech began to spread like wildfire. Some interested individuals got wind of what he said through a variety of channels.

While meeting with Prime Minister Takeo Okuda of Japan in late 1979, Comrade Deng Xiaoping disclosed that China's economic development strategic goal was to quadruple the output value by the end of the century. This shows that during the very first year of economic structural reform, Comrade Deng Xiaoping had already

decided on the goal of reform and the strategic objective of economic development, two matters of all-embracing importance.

It takes time to translate the far-sightedness of one individual into the consensus of a majority of people. And time makes history.

The "Decision On Restructuring the Economic System" of 1984 coined the new phrase: "planned commodity economy."

After the 3d plenum of the 11th CCP Central Committee, the household responsibility system of linking output to remuneration, a peasants' creation, was an instant success and gradually spread throughout the nation's countryside. Specialized households, individual households, and township and town enterprises flourished, demonstrating the vitality of the commodity economy. "The countryside encircles the cities," the strategy that had its birth in the revolutionary years, was reenacted in economic structural reform. Economic reform was spreading from the countryside to the cities.

In October 1984 the Third plenum of the 12th CCP Central Committee adopted the "Decision of the CCP Central Committee on Restructuring the Economic System," which made it clear that "the socialist planned economy is a planned commodity economy based on public ownership. It is not the kind of market economy totally regulated by the market."

The new proposal for a planned commodity economy touched off a major controversy. To some people, the operating word was "planned." Others thought what really mattered was "commodity economy." One side harped on "socialist planned economy"; the other cited the phrase—"develop a socialist commodity economy" in the "decision" as the basis of its argument. Even more controversial was the statement "not the kind of market economy that is fully regulated by the market." To some people, the statement pinpointed its essential difference from the "market economy." Others claimed that it merely said what it was not, it did not tell us what it was.

The two camps put their rhetorical skills to good use during the debate, but they both stood under one banner: build socialism with Chinese characteristics. As the originator of the theory of "building socialism with Chinese characteristics" and the chief architect of post-Mao Zedong China, Comrade Deng Xiaoping had the right and the responsibility to put forward an authoritative definition. Needless to say, he had to bide his time until the right moment.

In 1985, again when he was meeting with foreign guests, the general architect emphasized the integration of the planned economy with market economy.

On 23 October 1985, exactly a month after the conclusion of the National Party Congress, Deng Xiaoping was again meeting with foreign guests at the Great Hall of the People in Beijing, this time in his capacity as chairman



of the central advisory commission. The guests were members of a business group from the United States.

It was the first anniversary of the "Decision of the CCP Central Committee on Restructuring the Economic System." Seven years had passed since economic reform began in China and six years had come and gone after Comrade Deng Xiaoping coined the phrase "socialist market economy" when he met with Jibuni. In the six years between 1979 and 1985, the understanding of the entire party deepened gradually even as differences of opinion emerged over new issues.

When Ge Long Wa Er De [2706 7127 3907 1422 1795], who headed the delegation of American businessmen, asked about the relationship between socialism and market economy, Deng Xiaoping responded with a more detailed explanation of the socialist market economy. He said, "There are no fundamental conflicts between socialism and the market economy. The question is what method is more favorable to the development of social productive forces. In the past we created a planned economy. This is certainly a good method, but years of experience prove that by itself the method would hamper the development of productive forces. We should combine the planned economy with the market economy to better liberate productive forces and accelerate their development."

What is the relationship between the development of productive forces and building socialism? This is a legitimate question. Deng Xiaoping said, "Basic to building socialism is the development of productive forces. In adhering to socialism, we are precisely insisting on a dominant role for the public economy. Even as we develop the economy we try to avoid polarization and take the road to common wealth instead."

Comrade Deng Xiaoping also said, "For seven years we worked on the four modernizations wholeheartedly. We put to use the inherent characteristics of socialism. At the same time, however, we also applied some of the effective practices of socialism to accelerate the development of productive forces."

This conversation found its way into the columns of all leading newspapers the next day. The headline in RENMIN RIBAO read, "Deng Xiaoping: Combine Planned Economy with Market Economy To Further Liberate Productive Forces." All observant individuals in the theoretical community took note of this statement.

If you compare Deng Xiaoping's remarks this time around with what he said to Jibuni and others in November 1979, it is clear that the two were consistent with each other. First of all, in both conversations, the planned economy, the market economy, and their combination were all regarded as a means of developing productive forces. Secondly, both used the criterion of whether or not it would help develop social productive forces as the basis for deciding to adopt or reject a

method. This criterion became known as the productive forces yardstick in the theoretical community.

Since these ideas were consistent with one another, we can conclude that similar points or propositions must have been made by Deng Xiaoping on other occasions during the six years in question. During the spring festival of 1983, it was said, a local leader reported to Comrade Deng Xiaoping that the market economy made up about half of the local economy, the closer to the grassroots, the greater its share, and that less than six years after this practice was introduced, output value doubled. Deng Xiaoping said, "It seems that the market economy is very important."

In October 1987 the 13th National Party Congress put forward another new theory: "The socialist planned commodity economy should be one where planning and the market are inherently related. The scope of both planning and the market should be society-wide." Generally speaking, the new economic operating mechanism is one where "the state regulates the market, the market guides enterprises." The establishment of a socialist market system should be accelerated.

The new proposal put forward by the 13th CCP National Party Congress represents a quantum leap in the entire party's understanding of the relations between socialism and market economy.

After the 13th CCP National Party Congress, the theoretical community continued its exploration revolving around the theory already put forward. Some people said we should adopt the expression "socialist market economy," arguing that the commodity economy and market economy are the two sides of the same coin; a highly developed socialized commodity economy is none other than a market economy. By using the expression "market economy," we will be better able to emphasize the operating mechanism of the commodity economy and highlight the market as the principal tool of resource allocation. One expert involved in the drafting of the report to the 13th CCP Central Committee wrote in a book that "now we are to create a market economy on the basis of public ownership, in other words, a socialist commodity economy."

Official party documents at the time were not yet talking in terms of creating a market economy, which inspired some individuals in the theoretical community to come forward with a different view. On the eve of the political disturbances of 1989, the phrase "market orientation" could be spotted in the newspapers now and then. In 1988, we lost control of the economy and there was economic chaos, which put the strongest advocates of "market orientation" in an awkward situation. As we launched the drive to "improve the economic climate and rectify the economic order," the criticisms of "market orientation" also became increasingly sharp.

Again we had arrived at another critical juncture in history.

June 1986. The political disturbances had just subsided. The general architect reiterated, "Adhere to the integration of planned economy and market economy."

The Chinese people were shaken psychologically by the political turmoil that occurred between the spring and summer of 1989. Where was China headed in the wake of the political turmoil? That became a matter of deep concern to people both at home and abroad.

On 9 June 1989, the political turmoil having just been quelled, Deng Xiaoping delivered a key speech when he met with cadres from the military units enforcing martial law in the capital. The text of the speech as recorded was published on the 28th, which included the following passage: "We must continue to integrate the planned economy with market regulation. That must not change. During the rectification drive, we must emphasize planning a little more in our practical work. At another time we may emphasize market regulation a little more and be more flexible. In the future we must continue to combine the planned economy with market regulation. Under no circumstances are we to return to the past and control the economy to death." (Emphases my own.)

Before the text of the speech was made public, it was printed and distributed among some individuals within the party. The two references to "regulation" which I emphasized were both "economy" in the copy for internal distribution.

In December 1990 Comrade Deng Xiaoping demanded that we "straighten out our thinking on a theoretical level."

"Continue to adhere to the integration of the planned economy and market economy." On 9 June 1989, at a critical juncture in history, Comrade Deng Xiaoping reiterated this point because, in his own words, he believed it was a very urgent issue at the time, something that must be faced up to sooner or later."

After that round of political turmoil, public vigilance against peaceful evolution was enhanced and the four cardinal principles, particularly the one relating to the socialist direction, received extra emphasis.

"Adhere to the two-front struggle and do not swing from one extreme to the next." This piece of political wisdom, part of the ideological treasure chest we inherited from Mao Zedong, demanded that we not over-correct.

Comrade Deng Xiaoping, who has always emphasized the importance of grasping the spirit and essence of Mao Zedong Thought, is certainly even more skilled when it comes to mastering and applying such essence. No sooner had the political storm blown over than he stressed that "in the future we must continue to integrate the planned economy with the market economy." In treating this as a fairly urgent issue, Comrade Deng Xiaoping fully demonstrated his thoughtfulness and far-sightedness, his concern that we might overcorrect. This was dialectics in action.

Subsequently some kind of over-correction did occur in the theoretical community. Some people equated "market economy" with "a market economy completely regulated by the market," hence capitalism, and criticized it freely. Some condemned the thesis of a "socialist market economy" as bourgeois liberalization. Yet others went further, to the point of including verbatim in their list of manifestations of bourgeois liberation in the economic theoretical community some of the things that Deng Xiaoping had publicly said in the past. There is reason to believe that these comrades supported Deng Xiaoping's brainchild—the theory of building socialism with Chinese characteristics. The problem was that some comrades had never studied closely or simply did not know Comrade Deng Xiaoping's pertinent writings.

The debate proceeded at the theoretical level. The solution too must be found in theory.

In December 1990, Deng Xiaoping put forward this demand during a conversation with CCP Central Committee leaders: Straighten out one's thinking. What distinguishes capitalism from socialism and vice versa is not things like planning and market. Socialism too features market regulation and capitalism also includes planned regulation. Don't think that one takes the capitalist road just by having a little market economy. No such thing. We need both: planned economy and market regulation. If you don't put together a market economy and willingly choose to fall behind, you will cut yourselves off from world information.

One month later, on the eve of the spring festival of 1991, Comrade Deng Xiaoping delivered a string of important speeches while visiting the south. Later JIEFANG RIBAO published four successive commentaries written by someone with the pen name of Huang Fuping [4106 3940 1627] on the spirit of Comrade Deng Xiaoping's speeches. Between March and July the same year, party and government leaders in some provinces and municipalities and a number of theoretical workers also penned articles and made speeches one after another discussing similar issues from different angles. It has been found that some statements and examples in these articles and speeches were so similar that you would think they were written by the same person.

There was speculation that these statements were not made without cause. Maybe Deng Xiaoping was going to make a crucial speech before and after the spring festival and that his speech would include similar statements.

Others argued that Comrade Deng Xiaoping could not possibly say these things.

Only history could solve the riddle of history.

In early 1992 Comrade Deng Xiaoping delivered a speech in the south: A little more planning or a little more market. That is not the essential difference between socialism and capitalism. The market economy is not the same as capitalism. Both planning and the market are economic tools.

In 1991 the Chinese people felt a mix of anxiety and joy. Eastern Europe had undergone radical changes. The Soviet Union disintegrated. Socialism was facing a grim test. Where was China headed? How could the Chinese not feel anxious? The CCP Central Committee observed calmly and reacted to the situation level-headedly, concentrating its energies on economic construction at home. In an even greater display of maturity, the leaders worked out the Eighth Five-Year Plan and 10-year plan. Seeing China's hope, how could we not feel joyful?

Between 18 January and 21 February 1992, around the spring festival, Comrade Deng Xiaoping, chief architect of China's reform and open policy, delivered a series of speeches while inspecting Wuchang, Shenzhen, Zhuhai, and Shanghai. Deng Xiaoping's speeches in the south ranged far and wide in content. One of the most important things he said had to do with the relationship between socialism and market economy.

Comrade Deng Xiaoping said, "A little more planning or a little more market does not essentially distinguish socialism from capitalism or vice versa. A planned economy does not amount to socialism; capitalism too features planning. The market economy does not amount to capitalism; socialism too includes the market. Both planning and the market are economic tools. The essence of socialism is to liberate productive forces. Develop productive forces, eliminate exploitation, get rid of polarization, and finally, make everybody wealthy. This is the principle I want to tell everybody."

Certainly there is more to the principle than this. Comrade Deng Xiaoping also said, "To acquire an edge over capitalism, socialism must boldly make use of and incorporate all cultural achievements created by human society. It must boldly make use of and incorporate from all nations in the world, including capitalist nations, all the advanced management methods and practices that reflect the laws of modern socialized production."

A look back at history shows that Comrade Deng Xiaoping time and again has expressed these ideas or made these arguments in the 12 years following November 1979. What he did this time around was merely to reiterate them—in a more concentrated and systematic manner. Comrade Deng Xiaoping has never wavered.

A reiteration was necessary because no consensus had been achieved thus far. The reason was that some people had not thought through how to better build and consolidate socialism in an economically backward country like China. Nor had they identified the cultural achievements created by capitalism in its course of development. Hence their fear of capitalism. Some people blamed reform and the open policy for opening the door to and developing capitalism. Others even argued that the principal danger of peaceful evolution was in the economic arena. In the eyes of Deng Xiaoping, all this was leftist jargon. He pointed out, therefore, that "the

right can ruin socialism, but so can the left. China must be vigilant against the right and, more important, against the left."

There are complicated reasons why individuals vary in the depth of their understanding and in how soon they become politically conscious. What is beyond doubt is that it is crucial that one has a correct method of thinking.

#### From "Personal Opinion" to "Party Resolution"

The important speeches made by Deng Xiaoping in the south were spreading rapidly in the early spring of 1992. The east wind brought forth the sights of spring all round.

The afternoon on 20 February. Qinzhen Hall in Zhongnanhai, Beijing. Comrade Jiang Zemin had called a seminar to discuss the drafting of the report to the 14th CCP National Party Congress. He said, "Comrade Deng Xiaoping's speech in the south is a crystallization and refinement of his thinking on building socialism with Chinese characteristics in the past dozen years. The spirit of his speech should be the keynote of this entire report." The drafting of the report then went under way.

What is the goal of the restructuring of the economic system in China? Both the theoretical community and top decision-making echelons had been pondering this question. The report to the 14th CCP National Party Congress must give a clear answer. There were plenty of suggestions, which could be divided into three groups: a socialist economic system that combines planning with the market; a planned market economy, with macroeconomic regulation and control; and a socialist market economy.

"We have got to conclude the report to the 14th National Party Congress by deciding on a scientific proposition that has the endorsement of a majority of comrades so as to further unify the understanding and actions of all comrades in the party and accelerate the construction of the new socialist economic system," said Comrade Jiang Zemin in a speech to the central party school on 9 June. By then the report to the 14th CCP National Party Congress was in its third draft.

"I am inclined toward using the term 'socialist market economy,'" the general secretary made known his position. He believed that the development of practice and the deepening of understanding required that we come right out and say explicitly that the goal of the restructuring of the economic system was to establish a socialist market economy that would help further liberate and develop productive forces.

Referring to Jiang Zemin's words above, some people commented privately and reminded others that "this is only a personal opinion."

In the spirit of Jiang Zemin's speech to the central party school and the meeting of the CCP Politburo, the report



drafting group made significant amendments to the report and produced the fourth draft.

On 11 July, JINGJI RIBAO published a signed article on its front page entitled "Socialism Should Also Put Together a Market Economy." Like the rock that is thrown into the river and sends a million sprays leaping skyward, the striking headline caught the eye of the world. It was reprinted by many provincial and municipal newspapers. Overseas newspapers were quick to react, some with exaggerated statements like this: "The Chinese Communists have sounded a warning that without a market economy, the Communist Party would soon come to grief."

At an award ceremony for the "BANYUETAN ideological and political work creative prize," Comrade Bo Yibo [5631 0001 3134] told the audience what Deng Xiaoping said about market economy back in December 1990. Bo Yibo said, "In my opinion, this is the road we must take in the initial stage of socialism."

"So much effort has been wasted in the past. Now everything is falling into place effortlessly." After July, "socialist market economy" became a hot topic in the economic theoretical community, discussed at an endless round of seminars and symposiums. Most newspapers in the nation too published a string of articles on the topic. How to further deepen economic reform also entered the consciousness of all research units in the State Council.

Everything was ready to go. The only missing element was the east wind.

12 October 1992. The Great Hall of the People, Beijing. The 14th CCP National Party Congress, the focus of world attention, opened. Comrade Jiang Zemin presented a report on behalf of the 13th CCP Central Committee. The report declared, "The goal of the restructuring of the economic system in China is to establish a socialist market economy." "In the course of building the socialist market economy, the scope, extent, and methods of integrating the two tools—planning and market—will differ from time to time, from sector to sector, and from place to place."

On 18 October the 14th CCP National Party Congress passed the "Resolution on the Report by the 13th CCP Central Committee," adopted the report presented to it, and explicitly declared that "the goal of the restructuring of the economic system is affirmed as the establishment of a socialist market economy." This marks the formal adoption of the idea of a socialist market economy by the whole party through established procedures.

#### The Crystallization of Collective Wisdom: The Process of Deepening Understanding

The adoption by the whole party of the idea of a socialist market economy and the decision that the goal of economic restructuring in China is to "build a socialist

market economy" constitutes a major theoretical breakthrough and a quantum leap in our understanding. The breakthrough and quantum leap came about only at the end of a hard journey of exploration. During the journey, the economic theoretical community, academe, and the top policy-making echelon worked in concert with one another and went forward hand in hand. A number of visionaries have made indelible contributions. One of the most outstanding ones is certainly Comrade Deng Xiaoping.

After reviewing the fourth draft of the report to the 14th CCP National Party Congress, Comrade Deng Xiaoping said, "Countless things in reform and the open policy came from the practice of the masses. They are collective wisdom, the wisdom of the masses, absolutely not the brainchild of one person." He said his contribution was to summarize them and be their vocal advocate.

It took 14 years since its inception for the socialist market economy to be formally adopted, 14 years in which a new understanding gradually took shape, developed, and deepened. In terms of substance, the idea of combining planned economy with market economy and the notion of a "socialist market economy" that appeared in the economic circles in April 1979 paled in comparison with the concept of a socialist market economy. Back then scholars who advocated the socialist market economy envisioned two kinds of such an economy. At the time even the concept itself was ill-defined.

"There was no way we could write such documents in the past, not without the practice we have had in the last few years. Even had we written them, it would take an uphill struggle to get them adopted." Deng Xiaoping uttered these profoundly meaningful words after the Third Plenum of the 12th CCP Central Committee passed the "Decision on Restructuring the Economic System." Looking back now, we appreciate their profundity so much more keenly.

In the 14 years since 1979, Comrade Deng Xiaoping repeatedly made the point that socialism too can put together a market economy. During this time, the CCP Central Committee adopted a string of new formulations signifying that the party's understanding was moving forward steadily, with each formulation marking an inevitable stage in the process of understanding. These formulations got closer to what Deng Xiaoping had in mind, but are not quite there. Deng Xiaoping reserved his "personal opinion." He respects "practice." He respects the masses. He chose to wait for the development of practice, for the understanding of a majority of the people to catch up. Time and again he reiterated his idea and pushed for it, never stopping to encourage practice and the development of understanding. This sets a good example for the party.

In the long process of human history, 14 years are but the twinkling of an eye. Using an orderly, incremental, and step-by-step approach, the party spent 14 years deciding

on the socialist market economy and adopting the goal of restructuring the economic system. This is a matter for rejoicing by the Chinese people.

## PROVINCIAL

### Marketing Cooperative Reforms in Shanxi Emphasized

#### Provincial Official Inspects County

93CE0133A Taiyuan SHANXI RIBAO in Chinese  
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[Article by correspondents Li Dongxi (2621 2639 0823) and Zhang Jun (1728 6511); Xinhuashe correspondent Yang Yuliang (2799 3768 5528); and RENMIN RIBAO correspondent Wang Aisheng (3769 5337 3932): "What Do the Fanshi County Experiences Explain?"]

[Excerpts] While making an on-site survey of the experiences of the Fanshi County supplying and marketing cooperative, Comrade Wang Maolin [3769 5399 2621] said: If the province's economy is to go up another step, the long-standing losses in its supply and marketing cooperatives will have to be turned around. It will have to implement to the full the spirit of the remarks that Comrade Deng Xiaoping made during his trip to the south. First, it will have to respect the masses' pioneering spirit, accelerating the pace of reform and opening to the outside world; second, it will have to innovate boldly, experiment boldly, and take risks boldly in the course of practice; third, in spreading experiences, it must not act with arbitrary uniformity, not resort to administrative orders, and not practice a single model; and fourth, in dealing with differences of opinion, it will have to refrain from criticizing and arguing, letting the facts speak for themselves instead.

On the afternoon of 26 August, provincial CPC committee secretary Wang Maolin went to Fanshi County.

During the past two years, he has traveled to 50 hardship counties all over the province from Taihang Shan to Luliang Shan, and from the shores of the Huang He to the plateau north of the Great Wall, visiting some of them several times in order to turn around the slow development of the commodity economy, particularly the long-standing losses of supply and marketing cooperatives. Many times he listened to reports, and many times he made important observations about the Fanshi Supply and Marketing Cooperative's experiences in large scale contracting of counter space in supply and marketing cooperatives. Subsequently, he also personally sent comrades from the provincial CPC committee's investigation and study office, and the provincial finance office to investigate, and had SHANXI RIBAO publish the results. Very quickly, Fanshi Supply and Marketing Cooperative's experiences stirred a strong response from society, some people approving and others disapproving.

Now he was leading comrades from the agencies concerned, including comrades holding different views, to conduct a survey in Fanshi County.

#### Crisis Forces People To Act

As soon as he got out of the car, weary with travel, without stopping to take a rest, he assembled a discussion group made up of prefecture and county comrades in charge, and the chairman of the supply and marketing cooperative. Ordinarily, the county magistrate and county CPC secretary would have given a report, but Comrade Maolin said, "That's not necessary. Let's hear directly from the comrades in the supply and marketing cooperative." Comrades from the county supply and marketing cooperative reported completely and in detail on the situation following institution of the large scale contracting of counter space as Comrade Maolin made careful notes. After the meeting, he provided an analysis containing the following conclusions: Prior to the institution of large scale contracting of counter space, Fanshi County's state cooperative business might be said to have been beset with crises: First was the acute dwindling of business and the rapid shrinking of the base. Despite the thriving state-owned, collective, and individually-owned businesses, state cooperative business retail sales amounted to only 40 percent of the county's retail market sales, and only 20 percent of wholesale sales. Retail sales of supply and marketing cooperatives throughout the county fell from 15.44 million yuan in 1983 to 6 million yuan in 1991 in a 60 percent decline. Furthermore, this dwindling was a decline in absolute figures during a period of sustained price rises. Second was a decline in returns that produced serious losses. In 1983, the county supply and marketing cooperative system showed a profit of 548,000 yuan. After 1988, however, profits gradually declined until 1991 when the cooperative system showed 500,000 yuan in losses (including potential losses). Third was a halt in bank credit that made it difficult for enterprises to continue operation. The county supply and marketing system now had only 4.795 million yuan of its own money but outstanding bills totaled 5.25 million yuan. In addition it had 8 million yuan worth of commodities on hand whose sale was questionable. Under these circumstances, the banks did not dare give credit no matter who in authority told them to do so.

Comrade Maolin asked why did I make a special survey trip to the Fanshi County Supply and Marketing Cooperative? Mostly it was because I was very anxious to see how the supply and cooperative system's business has developed. He has a background in the study of finance and economics, and he likes to read reports and tables. In 1990, the country's national cooperative businesses saw a 67.01 percent drop in profits from the 1989 level, including a 64.7 percent drop in the supply and marketing cooperative system. Despite a slight rally in 1991, the per capita profit was no more than 452 yuan, and from January through June 1992, another slide occurred. Profits of national cooperative businesses nationwide declined 37.07 percent from 1991, including a 94.43

percent decline for supply and marketing cooperatives. Although the extent of decline in the province's supply and marketing cooperative system was lower than the national average, it was still 41.01 percent. Nationwide, the aggregate indebtedness of state cooperative businesses is more than 60 billion yuan, including more than 10 billion yuan for supply and marketing cooperatives. Of this amount Shanxi's supply and marketing cooperatives owe 44 million yuan. As he thumbed through a notebook, he said, between January and July sales fell and losses rose in the supply and marketing cooperative system throughout the province. In July, grassroots level cooperatives' retail sales were 28.17 percent lower than for the same period in 1991. For the period January through July, grassroots level cooperatives' losses were up 3.68 million yuan over the same period in 1991. The number of units losing money increased by 69 over the same period in 1991. Spreading his hands in exasperation, he said: "How can this go on? During the past two years he had personally witnessed these events and collected a large amount of data about the dwindling business of the supply and marketing cooperatives.

In one prefecture, one-third of the grassroots level supply and marketing cooperative branch stores and dual agent [shuangdai 7175 0108] shops were located in dilapidated temples. Unable to compete, their entry ways were deserted and their business depressed. In one county, the assets of one-half of the enterprises in the supply and marketing cooperative system were less than their debts; banks halted credit for one-third of them; one-fourth of their commodities deteriorated or spoiled; one-fifth of their staff members and workers left to find jobs elsewhere; and one-sixth of their cadres requested transfers. A glance around showed weed-choked courtyards, bare shelves, a dreary scene, apathy and malaise. He heard with his own ears that in the 1990's some of the basic level supply and marketing cooperative warehouses still stocked Lenin buttons from the 1950's, lotus root starch from the 1960's, and satchels from the Great Cultural Revolution era bearing the motto "The Red Army Does Not Fear the Rigors of Travel Afar." In the chaotic administration and management, a small number of businesses gave short measure, deducted money for returns, stocked shoddy goods rather than quality goods, stocked expensive goods instead of low priced goods, stocked old goods instead of new goods, sold goods off the books, and marketed commodities outside the system to a serious degree. The Guanyeling dual agent shop of the Zhengzhuang Supply and Marketing Cooperative in Qinshui County had an authorized capital of 300 yuan when it actually had 3,086.43, more than 10 times the authorized amount. Investigation showed it had only 359.23 yuan worth of commodities on hand, but was owed 2,073 yuan, 1,700 yuan of it by the village CPC committee alone, this amount having been outstanding for three years. Seven of the tiny dual agent shops in this supply and marketing cooperative sold goods on credit and used funds in unauthorized ways, and they were short on capital and short on goods, so how could they "develop the economy and ensure

supply?" The number of dual agent shops in the province declined from more than 10,000 to 7,000, down 30 percent.

Comrade Maolin repeatedly analyzed and studied this large amount of data. After thinking about it for a long time, he decided that this situation did not apply to any specific people or any specific area. It stemmed from various deep-down contradictions in the development of supply and marketing cooperatives from which there was only one way out: reform! Therefore, he threw a large amount of energy and effort into reforming supply and marketing cooperatives throughout the province. During the past two years, he provided more than 20 recommendations and instructions for supply and marketing cooperative reform, making eight exhaustive recommendations about reform of supply and marketing cooperatives in Luliang Prefecture alone. Publicizing the experiences in reforming the supply and marketing cooperatives in Zhongyang and Wenshui counties in Luliang Prefecture led to a deepening of reform of the supply and marketing cooperative system, which produced excellent results.

In the course of investigation and survey, he concluded that the various crises existing in the Fanshi county supply and marketing cooperatives also existed in impoverished mountain region supply and marketing cooperatives throughout the province. The supply and marketing cooperatives in these places would have to break out of their utterly isolated situations, and this would require that they free themselves from various old ideas and the shackles of the former system, deciding their own operating methods and business activities according to market economy laws. Consequently, his experiences with the Fanshi County supply and marketing cooperatives received exceptional attention.

#### Collision of Different Ideas

From its birth to its spread elsewhere, the "large scale contracting" that delivered the Fanshi county supply and marketing cooperative from its dire predicament evoked various kinds of controversy.

At the discussion meeting that Comrade Maolin held in Fanshi County, comrades holding different views also expressed themselves freely. These comrades were mostly concerned about five things as follows: First, they feared that returns would not really be all that good following "large scale contracting." Second, they worried that "large scale contracting" might hurt the supply and marketing cooperative's overall returns. Third, they were concerned that "large scale contracting" might weaken and cause the collapse of supply and marketing cooperatives. Fourth, they feared that the separation of ownership and operating rights within the state-owned economy following "large scale contracting" might mean that state-ownership would change to individual ownership; and fifth, they feared that following "large scale contracting," there would be no further control, etc.

In order to eliminate people's fears, on the day following his arrival in Fanshi, Comrade Maolin took everybody



to examine the birthplace of "large scale contracting," the Jiyizhuang Supply and Marketing Cooperative, and the Gaoshengzhai and Shahe cooperatives, the Industrial Goods Procurement and Marketing Company, and the Yiminmen shop run by the Daying Supply and Marketing Cooperative. Wherever he went, he walked directly up to the shop counters where he asked questions and listened to answers, talked with sales personnel about business, and questioned financial personnel closely about accounts. Those who came along on the survey also asked questions freely until they got the answers.

[Passage omitted] Comrade Maolin asked them to say what was the greatest benefit from "large scale contracting." The staff members and workers, visibly pleased, blurted out: It cured the "chronic ailments" in our supply and marketing cooperative. After large scale contracting, no longer were there any more underhanded activities such as off-the-books dealings, and marketing merchandise outside the system. It put an end to goods accumulating in inventory, and the old accumulation was gradually reduced. When contracting began, six stores had 250,000 yuan worth of goods in their warehouses, and staff members and workers had to accept responsibility for 67,000 yuan worth of goods, or 30.8 percent of the total amount in inventory. This meant that the staff members and workers had to bear nearly one-third of the burden accumulated over time. Another benefit was that the number of people doing the main job of the cooperatives increased; the number of administrative personnel declined; and bloating of supply and marketing cooperatives was eliminated. Because of the money to be made, personnel on the second line could not sit still; they hurriedly shifted into front line positions. The cooperative formerly had 13 people in managerial position; now it has only six. Accountants double as statisticians; tellers double as custodians, and cooks double as chauffeurs.

[Passage omitted] On a visit to a telecommunications store in the Shahe Supply and Marketing Cooperative's Hengxin Arcade, Comrade Maolin saw the high spirits of the staff members and workers following large scale contracting. After Han Mancang and Wei Rongfeng, man and wife, contracted a half dead group of counters in which earnings were low, morale poor, and off-the-books business deals frequent, an earth-shaking change took place. They raised nearly 30,000 yuan from relatives and friends, and collected 21,000 yuan by mortgaging their own home and from their friends savings accounts, which enabled them to expand the business. The kinds of goods offered for sale increased to 210, sales doubled, and tax payments increased 60 percent. Within 10 months, this group of counters, which had lost 6,492 yuan in the previous year, earned a profit of 5,724 yuan. They told Comrade Maolin that they had taken a risk, and that their money was hard-earned. Because of the pressure, they had an incentive to work, and their business boomed.

When Comrade Maolin saw the dazzling array of goods, the beaming smiles of the staff members and workers, and the happiness of the customers at the stores in the county supply and marketing cooperative's industrial goods procurement and marketing company, he was delighted. He examined one counter after another and asked questions at one counter after another, the furrows on his brow disappearing.

Next he called together the managers of 11 grassroots supply and marketing cooperatives and the contractors of 11 grassroots supply and marketing stores for a meeting. At the meeting, he again listened, asked questions, and took notes. The public's apprehensions and fears about the Fanshi County supply and marketing cooperative's experiences in "large scale contracting" dissipated one by one with practice. He sincerely told everyone: "The contention that there are only backward leaders, but no backward masses was once again proven here. Once the masses are free to act, reform can express itself in vibrant, varied, and lively ways. This means that only with reform can the enthusiasm and creativity of the workers be fully stimulated.

#### Creation of New Leadership Methods

During the on-site survey of the Fanshi Supply and Marketing Cooperative, time and again Comrade Wang Maolin warned other comrades in charge of cooperatives in the province, prefectures and counties that for the province's economy to move up another step, the long-standing losses of supply and marketing cooperatives throughout the province will have to be turned around. The spirit of Comrade Deng Xiaoping's remarks during his trip in the south must be fully implemented. In the practice of reform, the creative spirit of the masses must be respected, and one must stand in the front ranks of reform and opening to the outside world. While supporting standards that are in keeping with the "three interests" of the masses, one must boldly innovate, boldly take risks, and boldly experiment. He said that reform cannot be carried out in a kingdom that has ready-made answers, dogmatism, proof, and pre-judgement; instead, reform must be explored through discovery, opportunities, and creativity. Relating his remarks to the Fanshi Supply and Marketing Cooperative, he repeatedly emphasized the need to oppose dogmatism and bookishness, not doing things according to books or for career purposes, but doing them out of a sense of reality and out of respect for the practice of the masses in reform, throwing oneself into the powerful current of reform and opening to the outside world. Through practice, one should produce new things and stimulate cadres and the rank and file to work together in creating new leadership methods and new work experiences. He took the lead in having everyone summarize the experiences of the Fanshi Supply and Marketing Cooperative as follows:

The Fanshi County Supply and Marketing Cooperative operates 35 enterprises, including nine county-level companies, four industrial plants, a reception center, 21

grassroots cooperatives, and 113 retail shops. The system has a total of 991 cadres, staff members and workers. The cooperative contracted counters selling industrial goods in retail stores to staff members and workers in the supply and marketing cooperative to operate themselves. So long as they paid the counter space contracting fee, and so long as their tax payments to the state increased by an appropriate amount each year, they would be responsible for raising capital, would make operating decisions, and would be responsible for their own profits and losses. Following contracting, "two uniforms, four decontrols, and five constants" were instituted, namely all tax payments that the supply and marketing cooperative received from the shops would be uniformly paid to the tax authorities, the shops would present accounting and statistical reports to the supply and marketing cooperative at a uniform time; business was decontrolled, prices were decontrolled, distributions were decontrolled, and the use of labor was decontrolled; ownership of fixed assets remained constant, the subordination relationship between the counters and the enterprise remained constant; the original status of staff members remained constant, political benefits remained constant, and adherence to the enterprises' socialist operating orientation remained constant. He also summarized with the masses the six major benefits of large scale contracting for the Fanshi County Supply and Marketing Cooperative. First, the state gained more revenue, the enterprise converted losses into profits, and staff member and worker income increased. The county contracted the operation of 88 shops, which paid taxes of 220,000 yuan, up 21.6 percent from the same period in 1991; annual fee payments totaled 442,000 yuan, and losses of 372,000 yuan per year were halted. Returns from the three totaled 1.034 million yuan, 857,000 yuan more than before contracting. Staff member and worker wages increased by between 50 and 150 yuan. Second, it tremendously stimulated the enthusiasm for business of the broad masses of staff members and workers, increased service quality, and improved the service attitude. The large scale contracting of counters enabled a separation of operating rights and ownership rights. After making their payments to the state and the collective, all earnings belonged to the contractors themselves. Returns were closely linked to one's own efforts with the result that enthusiasm for business rose, and the former bureaucratic business work style was swept away. The kinds of products sold increased, and the appearance of the shops improved. The service attitude of sales personnel toward customers changed remarkably. They did not become irritated no matter the provocation; they did not become annoyed no matter the number of questions; and they guaranteed that goods could be returned or exchanged. Third, the contracting soaked up idle capital, eased the state's credit burden, and reduced expenditures. In the 88 shops contracted, 287 staff members and workers raised 3.5 million yuan. In addition, the enterprise no longer paid staff member and worker wages, allowances and miscellaneous fees, or loan interest. Fourth, the enterprise no longer carried operating risks. It could incur no new losses, and it fundamentally halted

off-the-books transactions and marketing of goods outside the system. Large scale contracting also put more people into the front line of work, ensuring full play of the supply and marketing cooperative's business advantages and overall service functions. Following large scale contracting, the county cooperative stores added 49 new people while cutting administrative personnel by half. Prior to large scale contracting, the supply and marketing cooperative's profits from sales of agricultural means of production and agricultural by-products covered losses from the sale of industrial goods used in daily life. Large scale contracting served to straighten out the relationship among agricultural by-products, agricultural means of production, and industrial goods sales. After shops became responsible for their own business, supply and marketing cooperative leaders and other personnel found the time and the energy to pay attention to the supply of means of production, purchase and sales of agricultural by-products, and providing services for agriculture, thereby ensuring the total effectiveness of supply and marketing cooperatives. Sixth, large scale contracting changed the low benefits of staff members and workers, thereby ensuring the ideological stability of supply and marketing cooperative staff members and workers, and continuity in the cooperative corps.

The on-site survey achieved a consensus among differing views about the Fanshi Supply and Marketing Cooperative's experiences in large scale contracting. Comrade Wang Maolin did not criticize the comrades who held different views, nor did he argue with them. Much less did he rebuke them in any way. At this time, he repeatedly stressed again the varied experiences of the masses in practicing reform, and the need when propagating advanced experiences to suit general methods to specific circumstances, seek truth in facts, not insist on arbitrary uniformity, not issue administrative orders, and not insist on a single model. Instead, the masses must be free to act, each one showing his or her own prowess. He said that in practicing reform, different ideas and different views are the rule. We do not criticize or argue with them; instead, we emphasize investigation and study to let the facts speak for themselves. The masses must pay attention to practice, and we must rely on practice. Practice is the sole standard for judging right and wrong. Not arguing is a new work method that Deng Xiaoping espoused in the important remarks he made during his trip to south China. Arguing back and forth loses fine opportunities and affects work adversely. We must apply this scientific work method to actual work.

That Comrade Maolin admonished the comrades this way is even more the practice of what he preaches. During this on-site survey of the Fanshi Supply and Marketing Cooperative, everyone felt this very deeply. Consequently, both those comrades holding dissenting views and identical views felt they had received living lesson about a new work method.

Now it is very late at night. After running about constantly, the weary Comrade Wang Maolin truly feels rather tired. Nevertheless, reclining on a sofa, he

reminds the correspondents: "You might find a few more role models here whose stories you can tell to publicize the masses practice and experiences in reform as quickly as possible, using this to spur reform of the work of supply and marketing cooperatives everywhere in the province. Between January and July, the number and the amount of losses in the supply and marketing cooperative system increased. We can no longer remain in limbo, moving along sluggishly!" His eyes showed some concern that made people feel a spontaneous sense of urgency.

#### Article Views 10 Role Models

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[Article by correspondent Ding Weliye (0002 0251 6460) and reporters Xin Sheng (0207 3932), Jun Shan (1498 1472), Bao Ming (0202 2494), Zai Feng (0961 7685) and Ji Lin (0679 2651): "Fanshi County Supply and Marketing Cooperative Institutes Large Scale Contracting—A Look at 10 Role Models"]

[Text] Recently, provincial CPC secretary Comrade Wang Maolin led comrades in charge from the provincial Finance Office and from the provincial Supply and Marketing Cooperative, as well as comrades from Xinzhou Prefecture and Fanshi County on a survey of grassroots supply and marketing cooperatives at Ganshengzhai Township, Shahe Town, Jiyizhuang, and Chengguang in Fanshi County where they conducted an on-the-ground survey of the large scale contracting of counter space in the Fanshi Supply and Marketing Cooperative. In the course of the survey, Comrade Wang Maolin personally held separate meetings with some of the contractors, staff members, and workers, hearing a large number of reports and views from all quarters concerned. He sized up the shops one by one, conscientiously analyzing the business of each shop before and after contracting in an effort to find out whether service to the peasants had been improved or weakened as a result of the large scale contracting of counter space, and whether the peasants were satisfied. He also set aside some time to hear the views and opinions of the news reporters, and he told the comrades from the SHANXI RIBAO that they should look at some more role models and make another conscientious assessment that explains specifically the pros and cons of contracting, whether enterprises made a profit or lost money following contracting, and whether contracting benefits the state, collectives, and individuals. Acting on Comrade Maolin's ideas and request, we selected 10 different outlet points for a detailed and complete investigation. We believe that once enterprises and their staff members and workers move in the direction of the market to become independent managers and direct participants in market competition, their enthusiasm will be expressed to the maximum degree; then many methods will be available, avenues will be wide, and business returns will be good. In a sentence, contracting is good!

#### Large Scale Contracting Forced by Circumstances— Survey of the Jiyizhuang Supply and Marketing Cooperative Before and After Large Scale Contracting

Jiyizhuang, the birthplace of large scale counter space contracting, has three retail stores, four branch marketing shops, one procurement station, and 22 cadres, staff members, and workers. With the formation of numerous channels for commodity circulation and faced with fierce competition, this supply and marketing cooperative, which had always showed a profit since the time of its founding, began to show a loss in 1987. Six shops selling industrial goods, in particular, showed losses of 10,094 yuan during the first half of 1987, and the situation showed signs of becoming worse and worse. What was to be done? The cooperative's leaders boldly introduced the rural family output-related contract responsibility system into the shops. In July, they contracted the six shops selling industrial goods to the 12 staff members and workers who had been operating them. These staff members and workers became responsible for raising their own capital, had a free hand in running the shops, were responsible for their own profits and losses, and had to ensure payment of taxes and contracting fees. The contract ran for three years. The staff members and workers said that large scale contracting was forced by circumstances.

After three years of contracting, not only did the six shops wipe out their losses and pay 32,400 yuan in contracting fees, but the supply and marketing cooperative also saved 42,000 yuan in wage payments to 12 staff members and workers. Tax payments totaled 29,000 yuan, up 2.3 percent from the previous three years. Earnings of the contracting staff members and workers more than doubled on average. The amount of money spent on agricultural by-products procurement also increased 83.4 percent. One might say that it was an all-win and no-loss situation. After three years, contracting was halted because documents from higher authority explicitly disallowed it. In August 1990, three of the six shops resumed contracting because of the intense demand of the staff members and workers, the contracting period being secretly extended for one-half year. The other three shops returned to their former responsibility system whereby compensation was linked to sales. The result was that after five months the three shops that stopped contracting lost 3,000 yuan again. In 1991, the three shops lost 12,900 yuan, and during the first quarter of 1992, they lost another 2,415 yuan.

This stop-and-go practice made people realize more clearly that the large scale contracting of counter space in the cooperative was an effective way of getting the supply and marketing cooperative out of difficulty. Therefore, in April 1992, the six shops began the second period of contracting, this time for five years. Following the resumption of large scale contracting, these shops turned losses into profits, the state, collectives, and individuals all benefiting. The six shops guaranteed the annual payment of 10,340 yuan in taxes, up 23.9 percent from the previous year, and payment of 11,900 in



contracting fees versus 10,094 in losses for the previous year. The earnings of the contracting staff members and workers on average more than doubled.

Second, the shops appearance and the service attitude improved greatly. Formerly the goods on the shelves were usually covered with dust, but now they were wiped clean. The Xiashuangjing branch marketing store's buildings were dilapidated, so the contractors invested more than 800 yuan of their own money to repair them. The business hours of the six shops were extended by about four hours. In addition, the supply and marketing cooperative's money shortage was effectively relieved. During the past slightly more than four months of contracting, the 13 staff members and workers themselves raised more than 100,000 yuan, and added more than 500 colors, styles, and kinds of goods.

An even greater benefit from the large scale contracting was that it solved the "chronic ailments" that the supply and marketing cooperative had always wanted to solve but had never solved: First, it ended "off-the-books business and marketing of goods outside the system." Second, it ended the accumulation of goods in inventory. At the time of contracting, the six shops had a total of 250,000 yuan worth of goods in inventory, and the contracting staff members and workers had to take responsibility for 67,000 yuan worth of goods, or 30.8 percent of the total inventory. This meant that the contracting staff members and workers had to bear responsibility for nearly one-third of the inventory burden that had accumulated over the years, settling accounts for the merchandise in four payments within one year. More importantly, once the staff members and workers became responsible for the business, they halted new inventory problems. Third was a change in the reverse flow of personnel that made it difficult for temporary workers to retire. When the contracting group took over, three temporary workers resigned in order to return to their homes. Because of the attraction of the economic gains to be made, personnel in the second line could not sit still; they hurried to move into the front line. Where there were formerly 13 people in management and logistics positions, today the number is six. Accountants double as statisticians; tellers double as custodians, and cooks double as chauffeurs.

#### **Loosening of Restraints in One Area Strengthens Two Areas—A Survey of the Gaoshengzhai Supply and Marketing Cooperative**

Simultaneous with its loosening of restraints on decision-making authority in its retail shops, the Gaoshengzhai Supply and Marketing Cooperative has scored marked economic and social benefits from better supply of the means of production and procurement of agricultural by-products, thereby taking a new road in the intensification of reform in grassroots supply and marketing cooperatives.

During 1991, the staff members and workers everywhere in this supply and marketing cooperative busied themselves all year long, but at the end of the year the cooperative still showed a 20,000 yuan loss. In early 1992, in response to ideas from the prefecture and county on instituting the large scale contracting of a group of counters, the supply and marketing cooperative made a start by removing restrictions on retail shops. Adhering to the principle of "openness, equality, democracy, and competition," the cooperative contracted with seven of the 18 staff members and workers in the cooperative the operation of the former Mianbai retail store, nonstaple food store, and two branch marketing stores. It also gave the contractors the right to make their own decisions about what goods they would stock, to set prices, to distribute returns, and how to assign workers. After contracting the Mianbai and nonstaple foods stores, sales increased remarkably. The four stores contracted sales of 26,600 yuan, up 10.8 percent from the previous year; contracted tax payments of 7,810 yuan, up 18.3 percent from the previous year; paid 15,000 yuan per year in contracting fees, and assumed the stores' previous year losses of 1,960 yuan, the total coming to 16,960 yuan. The seven contractors are now paying month by month the fees, taxes, and interest payments they contracted. They are not in arrears in their payments. The wages of the contractors have also increased approximately 80 percent.

After decontrolling the retail stores, the cooperative moved to strengthen two other areas in an effort to improve supply of the means of production and procurement of agricultural by-products. It selected three people from among the cooperative's 18 persons other than the store contractors to take charge of supplying the means of production. The cooperative arranged with the township government and the credit cooperative to have a loan paid directly to it so that the supply and marketing cooperative could deliver chemical fertilizer, pesticides, plastic mulch, and small farm machines and tools to each of the households in all the villages as needed. Between April and July 1992, the value of means of production supplied totaled 148,000 yuan, up 8 percent over the same period in 1991.

At the same time, another five people were placed under the leadership of the cooperative manager, Zhao Jin, all of them to be responsible for the procurement of agricultural by-products. Working out of the existing procurement sites, they went from place to place to purchase all sorts of agricultural by-products. They also provided information to the peasants, set up bases, arranged for sources of supply, and signed 284 contracts with peasants for the purchase of all kinds of agricultural by-products. They made purchases at contracted prices, thereby allaying the peasants' worries about payment.

These methods stirred the zeal of the supply and marketing cooperative's staff members and workers, so all of its economic indicators rose appreciably between January and July. Commodity retail sales totaled 615,070 yuan, up 86.5 percent over the same period in 1991, and

expenses fell 1.58 percent over the same period in 1991 to 4.97 percent. Funds turned over in 64 days, 48 days faster than during the same period in 1991. A total of 19,544 yuan worth of commodities in inventory were sold, 52,056 yuan worth remaining. Plans call for the setting up of special counters, the holding of fairs, exchange purchases, and price reductions to get rid of the rest by the end of the year. As of the end of July, returns had increased by 4,900 yuan. Once large scale procurement of agricultural by-products has been completed, economic returns will amount to at least 20,000 yuan in profits versus the 20,000 yuan in losses of 1991.

**Advanced Cooperative Also Changes as a Result of Contracting—Survey of Guangyubao Supply and Marketing Cooperative**

Guangyubao Supply and Marketing Cooperative received several commendations from higher authority as an advanced unit earning profits for 11 consecutive years. Therefore, early in 1991 when the county's supply and marketing system promoted "large scale contracting of stores," that cooperatives leaders, staff members and workers did some figuring. In 1991, seven stores had retail commodity sales of 300,600 yuan on which they realized a gross profit of 80,720 yuan. After paying 56,431 yuan in expenses and 14,094 yuan in taxes, the shops lost 9,805 yuan. With the loss of business, the salesmen's liking for the collective became less and less. They resorted to private off-the-books sales and jacking up of prices despite repeated warnings, which only led to a year by year decline in business. Retail sales in 1990 were 5.8 percent less than in 1989, and in 1991, they fell another 12 percent from 1990. At the end of 1991, commodities inventory totaled 334,000 yuan in value, and concealed losses amounting to 65,000 yuan were anticipated. After analysis of the figures, the cooperative put large scale contracting into practice for the seven stores in April 1992. After five months, this large scale store contracting proved to be a fine method that yielded eight advantages as follows: First, it increased the contribution to the state. During the first year, 7.8 percent more taxes were paid than during the same period in 1991. Second, economic returns rose. The stores' actual benefit for 1992 totaled 27,405 yuan (17,600 yuan in contacting fees and 9,804 yuan in halted losses). Third, the incomes of the staff members and workers increased. After contracting, staff member and worker income averaged 150 - 200 yuan per month, which was 50 to 100 percent more than the former wages. Fourth, consumers benefited. Following contracting, business hours increased, the kinds of goods carried increased, and because of competition, prices of most goods fell. The appearances of the stores improved, and the service attitude was better. Fifth, the funds shortage eased, the amount of funds tied up gradually declining. Sixth, jobs were found for surplus personnel for a reduction in the number of people employed who had little to do. Seventh, it promoted fulfillment of all economic norms. As of the end of July, the cooperative's commodity retail sales totaled 786,325 yuan, up 40 percent over the same period in 1991; and the expenses rate was 6.6 percent,

which was 2.68 percentage points lower than during the same period in 1991. Funds turned over in 155 days, 13 days faster than during the same period in 1991. Eighth was the every increasing decline in the amount of inventory. When the cooperative began contracting, 120,208 yuan worth of goods was in inventory, but 41,100 yuan of it had been sold by 1992. It was expected that the remainder would be completely disposed of by the end of the year. Although a 30,000 to 60,000 yuan loss was anticipated, 60,000 yuan worth of inventory would be removed, and no additional goods would accumulate in inventory.

**Provincial Official Endorses Reportage**

93CE0133C Talyuan SHANXI RIBAO in Chinese  
15 Sep 92 p 1

[Article: "Wang Maolin Comments on Newspaper's Investigation of Role Models Among Supply and Marketing Cooperatives in Fanshi County. Exploration of Methods Consistent With the "Benefit to Three Groups" (the state, collectives and individual) Should Be Allowed"]

[Text] A few days ago, provincial CPC committee secretary Wang Maolin made some important comments on a series of articles that this paper carried titled, "Fanshi County Supply and Marketing Cooperative Institutes Large Scale Contracting—A Look at 10 Role Models." In these remarks, he said: "These 10 role models are real. Needy mountain region supply and marketing cooperatives large scale contracting of counter space is one form of separation of ownership rights and operating rights. There is no need to be concerned; it is not necessary to argue about what is socialism and what is capitalism. The reason that needy mountain region supply and marketing cooperatives instituted large scale contracting of counter space was, to use the words of grassroots comrades, because it was "forced on them by circumstances." This statement makes sense. One conspicuous problem that has existed in supply and marketing cooperatives for many years is business dwindling away, mounting losses, and ideological wavering among staff members and workers. Supply and marketing cooperatives extricate themselves from this predicament only through reform. There are many methods to accomplish this; mandating a single method was unnecessary. So long as the method was in keeping with the "benefit to three groups" standard for which Comrade Deng Xiaoping called, any method could be explored.

Whether one approves or opposes the large scale contracting of counter space that the needy mountain area supply and marketing cooperatives used, one should read these newspaper reports carefully to gain insight. If one can go to these 10 locations to make an on-the-ground investigation and listen to the views of grassroots comrades, so much the better. SHANXI RIBAO might publish one report after another, permitting different views, but there should be no arguing. If supply

and marketing cooperatives are poorly run and losses increase, these problems must be solved at their source.

## FINANCE, BANKING

### PBC Official on Economic Growth, Monetary Policies

93CE0140A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 10, 11 Oct 92  
p 15

[Article by Zhao Haikuan (6392 3189 1401), director and research fellow at the PBC's Banking Studies Institute: "China's Current Monetary Situation and Economic Growth"]

[Text] 1. China has now entered another period of rapid economic growth, achieving an industrial growth rate of 18.2 percent for the first half of 1992, as high as 20.9 percent for July, and an estimated 17-plus percent for the year. At such rates, we are likely to maintain our high growth rate through 1993.

2. In the last four or five years, our money supply has grown faster than our economy, which has given rise to many misgivings. For instance, our M (money supply) growth figures for recent years have been roughly 67.8 billion yuan in 1988, 20 billion yuan in 1989, 30 billion yuan in 1990, and 53 billion yuan in 1991. And as our money supply grew 20 billion yuan more from January to mid-August 1992 than during the same period in 1991, it is estimated that more money will be put into circulation in 1992 than was in 1991. As our money supply is increasing year after year, many are becoming very concerned about the possibility of inflation.

3. The reason why our rapid money supply growth in recent years has not yet touched off greater price increases is that our improvement, rectification, and reform in recent years have produced certain new factors within China's economic operating forces, which have absorbed part of the increased money supply.

These new factors are mainly as follows: 1) Our monetary circulation has expanded in scope. While our past monetary attention was focused mainly on ordinary market commodities, our current expansion of money markets, the sharp increase in our financial commodity transaction volume, and particularly our public listing and trading of stocks, have attracted much of our monetary attention to negotiable securities, such as stocks and bonds. This has played an objective role in dispersing the monetary shock to ordinary market commodities, keeping them from changing much in price. The expansion in scope of our monetary circulation has also weakened the monetary shock on ordinary commodities of our cultural and service industry growth. 2) Our consumer goods supplies are abundant. As certain areas with more grain do not have warehouse reserves, so still have very abundant supplies of commodities such as cotton and cloth, the public is more able to sustain

monetary shocks. 3) We are experiencing a trend of internationalization of the RMB. As we open up more fully to the countries on our borders, our foreign economic and trade relations are developing faster. Rough estimates are that billions of yuan in RMB have flowed abroad, with this outflow of RMB having been used to buy and import commodities, which has increased our domestic market supplies. 4) Certain price-adjustment measures and slow market price increases in recent years have also absorbed part of our money supply.

As these factors have already essentially absorbed as much of the money supply as they can, so will be unable to absorb more for some time to come, allowing our money supply to continue to grow faster than our economy is likely to lead to problems.

4. While this analysis shows that our current monetary situation is improved, we still need to maintain a stable monetary policy and take a cautious approach for the following reasons: A) While various factors have absorbed a considerable part of our increased money supply in recent years, our current market money-supply is still too large, so that a recurrence of 1988 conditions might be a greater shock to markets, which has been the case in the recent stock-issue situation in Shenzhen. This means that any sign of trouble might have a greater impact than in 1988. B) That fact that more people now believe that our economic situation is better and our monetary problems are not great is a problem per se. As opposed to 1988, only certain senior comrades and bankers now believe that our monetary problems are great, while most of the public believes that they are not, so that problems are even more likely to occur because most parties throughout society are ignoring the danger of inflation. C) Recent foreign exchange conversion prices are higher. D) Our market prices have begun to increase faster.

5. Recommended countermeasures. In light of our current new situation of rapid economic growth and more currency being put into circulation and, in order to keep our economy growing solidly and smoothly and avoid sharp fluctuations, we should change our dependence on banks putting money into circulation to speed up economic growth, by advancing our pace of reform, increasing our reform force, and demanding speed and efficiency through reform as follows: A) We should expand our shareholding-system reform pilot-projects, by taking larger steps and being a little more flexible. B) We need to emphasize the conversion of the operating forces of our large- and medium-sized state enterprises, so that they will suit our development of a socialist market economy. C) We must continue to cut down on our commodity inventories, by selling them off at market prices, in order to reduce losses, speed up fund turnover, and turn cash tied up in inventories into liquid assets. D) It is recommended that we put some of our foreign exchange reserves to use. In short, we should promote rapid and healthy economic growth through reform.



### State Enterprises Manipulate Shanghai Stock Market

93CE0063B Hong Kong CHENG-MING  
[CONTENDING] in Chinese No 10, 1 Oct 92 pp 32-34

[Article by Ni Sheng (0242 4141): "An Inquiry of the Crash of Shanghai Stock Market—Problems Exposed by Shanghai's Stock Market Crash Reveal the Sadness of a Socialist Stock Market"]

#### [Text] Hidden Factors Behind the Big Crash

"I feel that the government is like a blood-sucking machine, trying to suck all the blood out of shareholders," Mr. Xi, a middle-aged engineer said indignantly. About six months ago, he accidentally bought a number of stock subscription certificates at 30 yuan a share. Suddenly, like unimaginable magic, he found out that the prices of these forms increased more than 10-fold overnight. So, relying on his mathematics skill, he decided to develop his talent to the full in the stock market...

But the good days of the Shanghai stock market were short. Since the full-scale opening in May 1992, the index of blue-chip stocks once soared nearly 1,500 points and the market profit rate of A stocks averaged over 200. In the beginning of August, shareholders' nightmare started. Stock prices fell daily, and then the day finally came when they were completely out of control. During three short days between 10 and 12 August, the stock market took a nose dive, and the index of blue-chip stocks fell all the way to the bottom, dropping 22.2 percent as compared to the closing record of 1,005 points on 7 August. It easily broke the record of 600 points which was a net drop of 820 points from the highest closing record of 1,420 points (25 May) of the Shanghai stock market. Dropping over 58 percent in 2.5 months is unprecedented in Shanghai stock market. It is rare even in the world stock market.

I am not a fan of stock fever. I am especially leery of so-called "China concept stocks." Rising high and falling hard is an iron rule of the stock market. We should not be surprised to see that the Shanghai stock market fell at a disastrous rate. As I see it, the previous rise was caused by people rushing to buy, and the market later fell sharply because the fever cooled down and there was nothing to hold the market up.

But Mr. Xi disagreed with me. He asked me in return: Is it considered illegal in foreign countries if large organizations cooperate with one another to manipulate and control the market and to cause severe losses to shareholders? I answered: "Fairness, justice, and openness" are the rules of the game in stock market, and none of them is dispensable. In Hong Kong, we often see famous people getting involved in stock market scandals. Although these people have "noble character and high prestige," they could not avoid going to jail for this. This is the only way to guarantee healthy development for the stock market.

Mr. Xi forced a smile: It is not the same in a socialist stock market! He took out two newspapers. One was the 19 August XINMIN WANBAO and the other was the 24 August "Shanghai Securities," a weekly newspaper. Not until I read them did I realize that there were other factors behind the big crash of Shanghai stock market.

#### XINMIN WANBAO Exposes the Inside Story of the Big Crash

An article in XINMIN WANBAO entitled "Hong Majia [4767 7456 3946] Exposed the Inside Story of Last Week's Slump in Stock Prices," written by Zuo Anlong [1563 1344 7893], states that Hong Majia, a broker working for the stock exchange, personally testified that the market slump was caused by institutions jointly and simultaneously selling their shares. On the morning of 10 August, there was a rumor in the stock market: "Institutions will jack up prices by entering the market. There is hope for the recovery of stock market." This broker described how it happened: "When the market opened at 1300 10 August, it was unusually quiet on the floor. Traders were watching closely quotation changes on computer terminals while continuously receiving purchasing slips from outside individual buyers. I found out that floor brokers of several nearby securities companies were talking softly to one another on the phone. I also joined them through telephone. This is a method for companies to exchange their views on the market and decide on the actions they are going to take. Several minutes later, a few companies which participated in self management simultaneously dumped their shares as if they had had a prior agreement. There was a very small amount of buy-back, which caused many people outside to follow suit because they thought that institutions were going to jack up prices. But what followed was an even larger scale of dumping. Five minutes later, many large institution shareholders also began to take similar actions. Not until 20 some minutes later did this information begin to spread to the trading counters of the broad masses of medium and small individual shareholders. Large shareholders following institutions and medium and small individual shareholders following large shareholders formed an irresistible trend of dumping..."

What is noteworthy is that the so-called large institution shareholders refer to state-run enterprises. Their capital easily exceeds 10,000,000 or 100,000,000 yuan. They can summon wind and rain. They are naturally the head honcho of the stock market. The so-called large shareholders mostly refer to individual and foreign shareholders whose stock fund is around 1 million. Some people own VIP rooms in stock exchanges so as to take advantage of being in a favorable position. But this time when large institution shareholders joined hands in dumping, not only did they not let out any air before hand, they also created the false phenomenon of raising prices, causing serious damages even to large individual shareholders. As for medium and small shareholders

whose capital range between hundreds to tens of thousand, many had to pool their funds to buy or sell, the loss amounted to their life-time savings.

In this "massive hemorrhage" of the stock market, the biggest winner was of course "socialist" enterprises whereas common people suffered severe losses. The general loss was over 20 percent. Some small shareholders suffered over 80 percent of loss.

Because the trick used by large institution shareholders to manipulate the market was too dumb plus the authoritative report of Xinmin Evening News, shareholders and even ordinary citizens in Shanghai are very indignant. During my stay in Shanghai in late August, I heard people talking about this on every street corner, and "blood-sucking machine" was their favorite curse words.

To quiet people's resentment perhaps, "Shanghai Securities," a weekly published by the Shanghai Security Exchange, provided "clarification" in red-and-white reversed bold print in the headline on the first page. A responsible person of the Shanghai Security exchange said in "a self-proclaimed responsible attitude" that there was no large-scale dumping on that day. He said that current institutions did not have enough reserve to make an impact on the market. He claimed that the article "Inside Story" is seriously against the fact and has caused confusion and disturbance among the people.

#### Shareholders Lost Confidence in Stock Market

But the clarification of the exchange did not clear shareholders' "confusion and disturbance." After experiencing this stock market risk, their psychological endurance and stock market analytical skills have matured as each day went by. They will not, of course, easily believe in the statement of only one side. Since that day, whenever there was a slight rise in stock prices, those who had stocks in their hands would close their eyes and sell out so as to "get it over with" while those who had money in their hands would rejoice and swear never to enter the market hastily. This was exactly opposite what it was before 10 August. With sellers quick to dump and buyers slow to accept, the volume of business suddenly dropped by over 50 percent, and the prices of stock were even worse. During the week in Shanghai, what I saw was that the stock market basically too a nose dive. Whenever there was a financial and economic broadcast, my friends would stop talking and gather around the television set with a serious look on their face. As a matter of fact, the decline rate of stock prices was really shocking. For instance, when the stock price of Electric Vacuum, which was known as the "head honcho," was 2,700 yuan, some people projected that it might rise to 5,000 yuan. But now it fell to 1,100 yuan, dropping over 230 yuan in one day. Although stock split and stock options offer better interest, such information no longer appeals to shareholders. Since the drop in the stock price of Electric Vacuum was a half more than the drop in other stock prices, some people mocked it as "the head honcho of the falling market."

I heard many shareholders complaining in private that after the 10 August man-made "stock disaster," they lost confidence in Shanghai stock market. Some people even asserted that Shanghai stock market has now become "half-cooked rice"—neither dead nor alive—and that they would love to see how the authorities are going to clean up this awful mess!

There is a definite reason for shareholders' complaints. According to insiders, Shanghai's superstructure was worried about the run-away prices of Shanghai stocks and feared for the loss of control, so it tried every method to attempt to pull down soaring stock prices. Planned personally by Mayor Huang Ju [7806 5468], measures designed to harness the stock market with the method of the planned economy were quietly introduced. For instance, corporation stocks were put on the market to be circulated one-way toward individuals in society; limits were imposed on the number of shares to be purchased by large institution shareholders; some shareholders were allowed to sell only but not buy; a seller's counter was opened in the Cultural Square; and new stocks were issued in large quantities at an accelerated speed. When the third issue of new shares was still going through the procedure of payment collection, booklets advertising the fourth issue of new shares already arrived one after after...

In fact, all these actions against market rationality paved the way for the slump of the stock market. The authorities swore that they did not "manipulate the market," but the restriction on the number of shares to be purchased by institutions in itself can very clearly explain the problem. Smart shareholders naturally understand that without the tacit agreement of large institution shareholders, no one has the power to summon wind and rain.

A recent report of Xinhua News Agency states that some units in Shanghai, exploiting the fact that people were anxious to buy stocks, sold some corporation stocks, which had not been put on the market, to reap colossal profits, seriously infringing upon the interests of shareholders. This story may appear to be convincing, but it is exactly the opposite to what I heard in Shanghai. Corporation stocks are not allowed to be sold to individuals without permission, but some shareholders in Shanghai told me that it was Shanghai's superstructure which did not play by the rule of the game and suddenly permitted part of corporation stocks to be put on the market, enabling the privileged to reap a colossal profit during the process of changing hands. The above-mentioned report of Xinhua News Agency criticized only the leaders of certain units, obviously trying to shift the target of attack and quiet the anger of the people.

The stock equity of pilot enterprises for the shareholding system in mainland China can be divided mainly into three forms: corporation, state-owned, and individual stocks, and their composition is approximately 5:3:2. Corporation stocks are also known as original stocks, namely the part of stock equity obtained

by enterprises and establishments when they use their own capital to invest in enterprises practicing the shareholding system. In the mind of shareholders, this is the "golden stocks" that will guarantee profits. In the past, the authorities of Mainland China did not allow state-owned and corporation stocks to be circulated on the market, nor did they allow such stocks to be exchanged with individual stocks. This was to prevent individuals from taking control of the ownership of enterprises after the above-mentioned "public" stocks were bought and sold. While there was no relevant legislation, who "seriously infringed upon the interest of shareholders" when suddenly corporation stocks were allowed to be put on the secondary market, thus creating confusion?

**Does the State Plan To Use Stock Market To Resolve Its Debt Problem?**

I saw some interesting statistics in Shanghai: How much money does the state owe us? The answer is that by the end of 1991, the domestic debts of China, namely money owed to the people and enterprises, reached 86.5 billions yuan. The departments concerned estimated that by the year of 2,000, the total amount of capital construction investment of China will reach 1,800 billion yuan. Current annual capital construction investment averages only 34 billion yuan. Where does the large amount of funds come from?

Do not think that China's domestic debts will double or triple because of this. The disturbance where Shanghai stock market was manipulated shows that the government is in total control of initiative. It can produce clouds with one turn of the hand and rain with another in the stock market, and the money in the pocket of the people will quietly end up in the treasury. The most urgent issue now is how to drag those individual shareholders into the market.

Foreign security circle personnel point out that the stock market of mainland China is one of very low maturity. It has six major unhealthy symptoms: 1) The supply and demand of stocks are seriously imbalanced. 2) The development of the issuing market is divorced from that of the trading market. 3) The accounting system of listing enterprises is confusing. 4) Relevant securities control legislation is not complete. 5) There is no standard or organ to verify the reputation of enterprises. 6) The ratio of state-owned stocks is too high.

Under the influence of these unhealthy symptoms, the authorities are not nearly as strict as what the outside believed to be regarding the screening and approval of listing companies. If there is "a connection," enterprises which do not meet listing requirements or even lose money still can list their stocks on the market. Even the responsible person of stock exchange admits that the situation is somewhat out of control.

This shows that the socialist stock market shoulders the heavy mission of saving socialist enterprises, so they have naturally become the new pet of the Communist Party of China. Some people describe Shanghai stock

market as the heavy-duty bomber, B-52. When the stock market soared and dived, the authorities did not want it to take off immediately, but B-52 cannot possibly park in the airport forever and do nothing. But once it takes off, does Shanghai stock market have the power to stand it?

This is what is so sad about the socialist stock market. Under the intervention of the party, it has lost its ability to fly at will, nor does it have the ability to regulate itself. Whenever there is any trouble at all, it can only rely on the control of invisible hands behind the scenes.

## SMALL-SCALE ENTERPRISES

**Township Enterprise Development in Central, Western Regions**

### Encourage Diversified Activities

93CE0217A Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 23 Nov 92 p 1

[Fourth in a series of editorials on speeding up development of township enterprises in central and western China: "Persisting in the Long-Term Joint Development of Diversified Economic Components"]

[Text] *Persisting in the long-term joint development of diversified economic components is one of our party's basic economic policies, as well as being a fundamental experience in the rapid growth of China's township enterprises. In order for central and western China to accelerate their township enterprise development, they will have to take practical steps to pursue this basic policy conscientiously.*

*The order of China's township enterprises has been one in which diversified economic components have coexisted. This has involved: 1) township- and 2) village-run collective enterprises; as well as 3) family- and 4) joint-family-run individual and private enterprises or economic coalitions, which our vast numbers of peasants describe as "four wheels turning together." Experience has proved that allowing diversified economic components to coexist helps to bring the initiative and developmental spirit of our vast numbers of peasants into full play, contributes to the full utilization of the scattered natural and economic resources in our rural areas, is in line with rural conditions, is very well received by the peasants, and is a good driving policy for rapid township enterprise development that we must practice absolutely unswervingly over the long term.*

*A large number of a different type of township and village shareholding-system enterprises have appeared in our rural areas in recent years, including cooperative shareholding enterprises. As this new form of enterprise organization is more helpful in raising private funds and separating government administration from enterprise management, it is better suited to commodity economy development and is gaining a rapid growth momentum. So we should sum up its experiences conscientiously and*



publicize them actively. In this way, we can add "wheels," such as shareholding enterprises, equity ventures, and chain enterprises, to our original "four-wheel drive" chassis, to achieve "multiple-wheel drive and multiple-track operations," which will be bound to bring even faster growth to China's township enterprises.

As our vast central and western rural areas contain large numbers of rural workers who are still stuck on the land, meaning that we must create more job opportunities as quickly as possible to speed up their pace of economic growth, development of township enterprises in our central and western regions is going to require more freeing up of thinking and lifting of shackles as far as ownership structure is concerned. "With many wheels turning at once, we can let the ones that turn fastest roll on," without worrying about this one turning faster and that one slower, or one producing more and another less. We need to understand that township enterprise ownership structure is tightly linked to productive forces development level, in that wheels in different regions with differing levels of productive forces cannot all turn at the same rate and speed, but rather that those wheels that are suited to the local level of productive forces development are bound to turn faster. While China is a socialist country, so that we must adhere to the dominance of the state-owned economy, by vigorously developing collective enterprises and encouraging communist party members to take the lead in running them, this is true only from the perspective of the overall order of our national economy, and certainly does not mean that the state-owned economy has to occupy the same position in every region and industry. Also, there is even less need to ensure the dominance of the state-owned economy by putting more restrictions on nonstate-owned enterprises, including individual and private, which, on the contrary, should be treated equally and without policy discrimination by being given a level playing field on which to compete. As long as their operations are legal and, regardless of their type of economic component, all enterprises that grow faster and better through competition must be given active encouragement and support, without being restricted in growth by quotas or in efficiency by numbers. Not only must we not discriminate against or restrict the development of individual, private, and shareholding enterprises on the pretext of their nature, but we must also strictly prohibit the buying-out policy against individual and private enterprises.

Pursuing the policy of long-term joint development of diversified economic components should also include allowing different types of economic components to voluntarily practice diversified forms of joint operations. All forms of joint operations help to bring economy-of-scale advantages into full play and reduce operating risks, so are an inevitable trend in enterprise development. We need to encourage enterprises of various economic components, such as state-owned, collective, individual, private, and foreign-invested enterprises, to develop diversified forms of coalitions on a voluntary basis. In order to do this, we are going to have

to change our thinking. In particular, state-owned and collective enterprises must stop acting as if forming coalitions with individual and private enterprises will lower their own "standing" and damage their own "purity." As individual and private enterprises are component parts of our national economy, as well as being necessary supplements to our socialist economy, forming coalitions with them will help to grow our economy. As long as right from the start such state-private coalitions clearly delimit their respective property rights, there will be no problem of either infringing on the other, but rather they will contribute even more to bringing the dominance of our state-owned economy into full play.

### Increase Capital Flow to Regions

93CE0217B Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 25 Nov 92 p 1

[Fifth in a series of editorials on speeding up development of township enterprises in central and western China: "On Using Multiple Channels To Increase Capital Flow to Central and Western China"]

[Text] In order to accelerate township enterprise development in central and western China, more funds will be needed. This will mean adopting more flexible measures and policies to increase capital flow to township enterprises through multiple channels.

In order to speed up the development of township enterprises in central and western China, the state has decided that in addition to using existing loans well, it will begin in 1993 to set aside certain special loans each year in support of township enterprise development. As this shows the state's concern for the vast numbers of peasants in central and western China, these special loans must certainly be used well and efficiently. They should be focused in the zones in central and western China where township enterprises are growing, in order to ensure that township enterprises there are suitably centralized right from the start, so that they will have more auspicious beginnings. We must insist on examination and approval of each project, with no equalitarian distribution of cash. Loans must be granted rationally based on good project demonstrations, in order to ensure that all projects are successful. And they must be coordinated with materials, technology, and management, so that investments are comprehensive and efficiency is ensured.

While state fund support to the acceleration of township enterprise development in central and western China is essential, it is also going to be quite limited. This means that the basic way out will be to stimulate rural financing, by speeding up the development of rural money markets, in order to create a new order of multiple fundraising channels for township enterprises.

We will need to continue to reform our rural credit cooperative management system, by enhancing its capital financing capability and vigor, so that credit cooperatives can play a greater role in support of township enterprise

development. Once credit cooperative capital is adequately backed up by reserve funds according to regulations, it should be allowed to be used independently to achieve "more loans based on more savings." Meanwhile, we must also allow development of lateral business ties among credit cooperatives and between them and all specialized banks, for mutual capital lending, adjustment of capital surpluses, and stimulation of capital markets. As township enterprises come in quite a few industrial categories, they should be provided with a correspondingly expanded scope of credit cooperative service. As long as they are township enterprises and have been proved to be truly effective projects, all credit cooperatives should be allowed to grant them loans without the former division-of-service restrictions. As township enterprises include diversified economic components, credit cooperatives should treat them all equally as to capital input, by emphasizing efficiency instead of discriminating by type of ownership. As many individual, private, and associated enterprises do not have accounts with banks and credit cooperatives, conducting large amounts of cash business, which is inconvenient while increasing the amount of money in circulation, individual, private, associated, and shareholding enterprises should be allowed to open accounts with banks and credit cooperatives in line with actual local conditions. In short, credit cooperatives, specialized banks, and concerned financial corporations must make support of township enterprise development in central and western China their capital investment priority, by using more initiative and creativity in arranging funds for township enterprise development, so that they can make greater contributions to promoting township enterprise development in central and western China.

While the Rural Cooperation Foundation (RCF) has a history of only a few years, it has developed quickly to become a rural financing organization second only to the Agricultural Bank and credit cooperatives. But while the RCF has key financial might in collecting idle funds from rural society, increasing agricultural investment, and supporting township enterprise development, so must continue to be run well, there are still varying opinions about it, and its position has not yet been fully affirmed. We should act according to the "three contributions" principle set forth by the 14th CPC Congress, by dealing with the RCF from the high plane of rural reform and development, paying full respect to the peasants' pioneering spirit, acknowledging the RCF's legality, and granting it clear policy guidance and preferences. Theoretically, the RCF should be recognized as an effective means of collecting, adjusting, and raising rural funds. Organizationally, it should be accepted as a key component of our rural banking system. As to services, it should be treated the same as our current cooperative financial organizations, such as credit cooperatives, by being provided with enhanced coordination and guidance and granted more operating independence, which will create a better environment for it. In our vast central and western regions in particular, RCF development needs to be regarded as a key means of solving township enterprise funding problems, as well as being operated conscientiously. We

should make full use of this form of organization that is so highly praised by the peasants, in order to speed up the development of rural money markets, more effectively amass idle funds in rural society, and accelerate service to township enterprise development.

In order to solve the funding problems of township enterprise development in central and western China, we also need to act in accordance with the need for steady development of rural money markets, by more widely allowing and encouraging all types of private financing and fundraising methods. Those, such as peasants investing funds and labor in factories, joint peasant households operating factories, and those who can come forward to raise capital by floating shares or taking the lead in setting up shareholding enterprises, are all being widely used in practice, as well as having been fully proved to be effective fundraising methods, so that we should continue to allow them and conscientiously sum up their experience, in order to use them more effectively in the service of township enterprise development. While the raising of development funds through the issuing of stocks and bonds by township enterprises can be a breakthrough in helping township enterprises develop by leaps and bounds, the lack of experience and the current lack of mature conditions for its widespread practice mean that we need to experiment with it in a planned way with approval after detailed demonstrations and thorough planning. In addition, some areas are experimenting with shareholding township enterprise investment corporations, and with setting up experimental finance or financial corporations within township enterprise groups, all of which are useful explorations in rural money market development that should be allowed.

In summary, our focus in solving the very difficult problem of the lack of funds for township enterprise development in central and western China should be put on developing rural money markets, so that funds can be obtained on markets. This process will unavoidably produce certain conflicts with our former banking system. In order to deal with such conflicts, we will need to free up our thinking and suitably ease our policies somewhat. We should allow and support whatever contributes to the development of township enterprises in central and western China without affecting our overall national macroeconomic financial situation, and allow experimentation even with what may seem temporarily non-standard. As development of rural money markets is a creative way to help establish a socialist market economy, it must be allowed to proceed with bolder and more experimental spirit.

#### Centralizing Small Enterprises

93CE0217C Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 27 Nov 92 p 1

[Sixth in a series of editorials on speeding up development of township enterprises in central and western China: "Taking a New Path of Suitably Centralized Development"]

[Text] As our rural areas have lacked experience in developing township enterprises, in addition to having been restricted by many factors of the times, they have always set up township enterprises in local townships and villages, with "each village firing up" and "flowers blossoming everywhere." While such an overdecentralized development pattern has contributed to the full utilization of local natural and economic resources, as well as having played a certain role in increasing the overall number of township enterprises and speeding up their growth rate, it has actually violated the objective law of the necessary suitable centralization of industrial development, by creating a certain amount of waste in the construction and utilization of infrastructures, such as power and transportation, which has had an adverse impact on the improvement of overall township enterprise efficiency. So central and western China need to learn this lesson in speeding up their development of township enterprises, by taking a new path of suitably centralized development.

Such suitable centralization is an inherent requirement of industrial development, in that it helps to improve enterprise efficiency and promote overall economic and social development. As suitable enterprise centralization allows joint construction and utilization of infrastructures, such as power, transportation, communication, water supply and drainage, it contributes to land conservation, cuts down on investments, raises infrastructure utilization rates, and lowers enterprise production costs. And as enterprise and employee centralization creates demands for many production and consumer services, such as stores, restaurants, schools, hospitals, theaters, and libraries, it contributes to increased rural employment and faster development of tertiary industries. Suitable enterprise centralization gets peasants "off of the land," centralizes land in the hands of the most capable farmers, and thus helps rural areas to achieve economy-of-scale land use and intensive farming. In addition, it contributes to a more rational distribution of industry, by avoiding duplicate construction, and to the development of small rural cities and towns, by accelerating the urbanization process in rural areas. In short, as a suitable centralization of township enterprises is a new path that speeds up township enterprise development and raises township enterprise overall efficiency, while accelerating overall rural economic and social development, we certainly need to understand it better and make a conscious decision to take it.

Of course, we need to persist in acting according to our realities, by dealing well with the relations between centralization and decentralization. Certain manufacturing enterprises that use mostly local township and village raw materials, particularly family handicraft industries, need not be centralized. Those that should must remain decentralized, in order to stimulate simultaneous action by all.

In order to guide township enterprises onto this new path of suitably centralized development, many areas are now setting up small township enterprise development zones. While some of these are under construction and in various stages of development, and others are still in the planning

and preparation stage, they are all issuing development information and relevant policies pertaining to their various limits and situations. But while some of these development zones are doing solid work, with detailed and complete plans and policies, funding implementation, auspicious project beginnings, and considerable size and better efficiency, which reflects a spirit of deepened reform and expanded opening, certain others lack full proofs, and are busily setting up shop without the necessary qualifications. Such actions that carry a certain sense of chaos and "overheatedness" need to be noted.

As guiding township enterprises to a suitable centralization will mean depending mostly on existing small cities and towns for relatively centralized development, we should guide township enterprise development into such small cities and towns. While China's organizational system contains a great many towns, these towns hold a very small percentage of our urban population, so that they will be able to absorb a large number of rural residents. This will solve the problem of township enterprise overdecentralization, while speeding up the development of small rural cities and towns, so that they can play a better role as rural economic and cultural centers. We could also support certain small and mid-size cities in pursuing an open policy of allowing collectives and individuals in to set up township enterprises, in order to achieve our objective of a suitable centralization of township enterprises.

The key to guiding township enterprises to a suitable centralization will be a set of preferential policies that can attract peasants to set up enterprises in development zones, small cities and towns, and small and mid-size cities. This will mean allowing bold experimentation. For instance, local and outside peasants who go to such planned sites to set up enterprises could be given transitional residence registration. Or, in order to induce those from certain inaccessible mountainous villages to set up township enterprises at planned sites, we could consider counting such enterprise output value as belonging to the original village, or even transferring a percentage of such enterprise taxes back to the place of origin. We could also offer more preferential policies to collectives and individuals from eastern China who set up township enterprises in central and western China. But it needs to be pointed out that the ability to attract peasant individuals and collectives to invest in setting up township enterprises at these planned sites depends on the investment climate, while the factors determining investment climate are many, such as infrastructures, social services, and administrative efficiency, of which preferential policies are only one. If the other conditions do not exist, even more preferential policies would not be very attractive. This means that guiding township enterprises to a suitable centralization, particularly to setting up in small development zones, will require emphasis on preferential policies and permission to experiment, as well as prevention of competitive conflicts and struggles over preferential policies. As to land in particular, competition that drives down land prices not only might easily create land resource



waste and economic interest erosion, but also could increase the uncertainty of investment conditions, which would be adverse to guiding township enterprises to a suitable centralization.

*Guiding township enterprises to a suitable centralization, in order to gradually change their existing overdecentralization, is a new mission for which we currently lack experience. So governments and departments in charge of township enterprises at all levels in central and western China must focus the necessary human, material, and financial resources on intensive experimentation. Then, we need to sum up as quickly as possible a set of specific experiences that are suited to local conditions and can provide real operating methods, so that we can truly acquire the authority to guide this mission, and ensure that township enterprises develop soundly on the new path of suitable centralization.*

### Measures Needed To Create 'Another Hong Kong'

93CE0077A Taiyuan JISHU JINGJI YU GUANLI  
YANJIU [TECHNOECONOMICS AND  
MANAGEMENT RESEARCH] in Chinese No 63,  
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[Article by Wang Zhuo (3769 3820): "On the 'Greater Hong Kong' Open Economic Sphere"]

[Text] Comrade Deng Xiaoping brought up the open strategic idea of "creating another Hong Kong" way back in the mid-1980's, but to date, nothing has been done. Obviously, the pace of reform has not picked up but has actually slowed down. One of the signs of slowing down is that so far we have been too timid to try or to make a breakthrough to "create another Hong Kong." Today, if we want to further open up the most urgent task is to liberate our thinking even more and put "create another Hong Kong" on the agenda, and we must take action now.

In 1989, I took part in a research project on implementing Comrade Deng Xiaoping's open strategic idea to "create another Hong Kong." In the process I initiated the idea of implementing a "two-line" customs administration in Shenzhen SEZ—one line to take care of exports and the other to take care of imports. In 1990, I also wrote a paper on "Two Systems, One Body" about the relationship between Shenzhen and Hong Kong. The so called "two systems" refers to Shenzhen upholding the socialist system while Hong Kong upholds its capitalist system. The so called "one body" refers to the opening up of Shenzhen and merging with Hong Kong to form an integrated body. On 28 January 1992, the SHENZHEN TEQU BAOSHE hosted a symposium in Guangzhou on the development of the tertiary industry. At that meeting, I once again brought up the issue of "creating another Hong Kong." Afterwards I turned my speech into a short article and initiated the new idea of creating a Shenzhen-Zhuhai-Hong Kong-Macao open economic sphere. In that article, I wrote:

Before the year 2000, China will take back the sovereignty rights over Hong Kong and Macao in succession. This is an important backdrop, an important event. Thus, around the year 2000, Shenzhen, Zhuhai, Hong Kong, and Macao will gradually develop into a city complex with even closer ties among them. This city complex will in fact develop into the Shenzhen-Zhuhai-Hong Kong-Macao open economic sphere. Once they step foot in this open sphere, all imports and exports to and from the mainland and all economic and technological exchange activities will enter directly into the international market. Shenzhen and Zhuhai will, like Hong Kong and Macao, become a part of the international market and they will be turned into thoroughfares bringing China's open economic activities into the international market. This is not someone's new idea but is the transformation of Comrade Deng Xiaoping's open strategic idea to "create another Hong Kong" into concrete form. (see SHENZHEN TEQUBAO, 11 February 1992, p 7).

Recently, I further proposed a new concept on creating a "Greater Hong Kong" open economic sphere by approximately 1997. Below, I will explain this new concept:

#### 1. Why Should We "Create Another Hong Kong"?

Some people say that Hong Kong's industrial scope is small and its high-tech industry is not that well developed. But to look at Hong Kong in this angle is not realistic. In fact, developing large industry is not to Hong Kong's advantage. To answer the question why we should "create another Hong Kong," we must first address the issue of how we should look at Hong Kong.

Hong Kong is not world-renowned as an industrial city. Hong Kong is a large open market, and this large market has three main characteristics:

A) Hong Kong is a wide-open large market Hong Kong has 150 years' history of being a completely open and free island, and that explains the degree of its openness today. It lets goods, capital, gold, and people go in and out freely; it treats foreign investments and local investments exactly alike; its enterprises are free to operate as they please, and it lets the successful prosper while the unsuccessful go bankrupt. The Hong Kong-British authorities actively uphold the policy of laissez-faire, which means the government's scope of interference is fairly limited and quite reasonable.

B) Hong Kong is a large market with internationalized functions As an international financial center: Hong Kong is the world's third largest financial center, after New York and London. Seventy-seven of the 100 largest banks in the world named in 1989 have branches in Hong Kong; 70 percent of the Asian Pacific financial groups' loans are raised in Hong Kong. Hong Kong's financial institutions hold more than \$20 billion in net credit rights around the world. It has all types of financial markets, among them, its gold, foreign exchange and securities, and stock markets rank among the largest in the world.

—As an international trade center: In 1988, Hong Kong's gross foreign trade value and gross export value ranked 11th, and its import value ranked 12th, in the world. In 1990, amid a worldwide economic recession and despite the gulf war, Hong Kong's entrepot trade increased 16 percent compared to the previous year; its import trade rose 11 percent, and its export showed no change compared to the previous year.

—As an international shipping center: There are 79 main shipping lines leading from Hong Kong to localities around the world. Globally, more than 100 nations and regions and more than 400 ports ship goods from and to Hong Kong. Its ocean container-shipping tonnage ranked first in the world in 1988 and for three years in a row.

—As an international economic information center: Hong Kong's information industry is highly developed.

**(C) Hong Kong is a large market with broad international economic and trade relations.** Hong Kong has become a large market for entrepot trade because it has China, with its 1.1 billion people, as its hinterland, and using that as backing, Hong Kong has forged multi-channel, diversified trade relations around the world. It has tremendous impact on and is also the economic hub for nations along the Pacific coast and in the Asian Pacific area. This is partly due to Hong Kong's long time policy of openness as a free island and is also due to geography and the fact that it is a port city. In particular, the unique post-war political and economic conditions also facilitated Hong Kong's effort to forge economic and trade relations worldwide.

Macao is also a large market with broad international economic and trade relations. It has economic and trade contacts with nearly a hundred nations and regions and enjoys "most favored nation" treatment from 20 nations as well as export quota guarantees. It is an important channel for moving Chinese products into the European Community. Today, Macao is stepping up effort to build an international airport and a deep-sea harbor. Upon completion, they will surely push Macao even further into the international market.

Why should we "create another Hong Kong"? According to my own studies, the purpose of Comrade Deng Xiaoping's strategic idea to "create another Hong Kong" was to create other port cities with international market functions and with the same degree of openness as Hong Kong. To do so, we must learn from Hong Kong's experience in opening up and put some of China's qualified port cities directly into the international market. This is the active goal of "creating Hong Kong." Thus to "create another Hong Kong" means creating a large socialist city that can directly enter into the international market—a large open international market.

## 2. Where Do We "Create Another Hong Kong"?

To "create another Hong Kong," we should choose coastal port cities with geographic advantages.

**A) It will be difficult to "create another Hong Kong" out of an interior city.** It is difficult to "create Hong Kong" out of the inland cities, because Hong Kong is a city with a highly developed commodity economy while the interior cities' commodity economy is still at the development stage, and it will take some time before they attain the standards of a modern commodity economy. Hong Kong's urban functions are highly internationalized, and it has broad economic and trade relations worldwide. For the interior cities' functions to reach such standard, we must wait for more substantial development in their tertiary industry, which will also take time, and in order to forge broad economic and trade relations worldwide, we must await gradual acceptance by entrepreneurs in the international community, and this will be an even longer process.

**B) A handful of coastal port cities are qualified to be turned into "another Hong Kong."** Hong Kong is a port city that extends in all directions, and it also has Mainland China as its vast hinterland. Looking at the pattern of China's current economic development, port cities that can be chosen to be turned into "another Hong Kong" must meet at least the following three conditions: One, they must have a well-developed transportation and communications system; two, they must have a well-developed economic region serving as their hinterland; three, they must have broad international economic and trade relations. Based on these three conditions, qualified port cities in South China include: A) Shenzhen and Zhuhai which have the Zhujiang Delta as their hinterland, and the Dayawan [Bias Bay] Planning Zone which is under development. B) Xiamen, with the Minnan Delta as its hinterland. C) Hainan Island's Yangpu has exceptional geographic advantages as "another Hong Kong." Qualified port cities in East China include: (1) Shanghai's Pudong, with the Changjiang Delta as its hinterland; (2) Qingdao, with Jiaodong Peninsula as its hinterland. The most qualified port city in North China is Dalian, with Liaodong Peninsula as its hinterland.

**C) The most qualified localities are the SEZ's just next door to Hong Kong and Macao, and Dayawan Planning Zone which is under development.** Most of the Hong Kong and Macao residents are Cantonese, and many of them have relatives in Guangdong. Thus we can suit measures to local conditions when "creating another Hong Kong." Perhaps there is no need to create a new Hong Kong. We can simply open up and link tracks to create a "Greater Hong Kong" open economic sphere. That is, we can open up Shenzhen and the Dayawan Planning Zone and link tracks with Hong Kong. We can open up Zhuhai and link it with Macao and create a "Greater Hong Kong" open economic sphere step by step just before or after China takes back Hong Kong and Macao. This open economic sphere should be the last thing created before China exercises complete sovereignty right over the whole territory. It will be a Chinese

open economic sphere and will be an open economic sphere with two social systems. Later, depending on the situation and on actual needs, the scope this "Greater Hong Kong" economic sphere may be expanded.

### 3. How To Create a "Greater Hong Kong" Open Economic Sphere

A positive goal for creating the "Greater Hong Kong" open economic sphere is to open up a thoroughfare in South China that takes Mainland China directly to the international market and turn Shenzhen, Zhuhai, and the developing Dayawan Planning Zone and other port cities into international open cities to become part of the international market, ushering China's policy of opening up to the outside world onto a new and higher level. Thus I look at the "Greater Hong Kong" open economic sphere as a large bridge linking China directly to the international market. The "Greater Hong Kong" open economic sphere is an economic concept and has nothing to do with politics. The so called "Greater Hong Kong" open economic sphere means linking Hong Kong and Macao with Shenzhen, Zhuhai, and the developing Dayawan Planning Zone one by one as they open up to form an integrated open system.

How do we create the "Greater Hong Kong" open economic sphere? I suggest that we first create the conditions and then proceed in steps.

**(A) We must create four conditions.** The first is to put the SEZ enterprises into the market. Enterprises must accept market regulations, and amid market competition, the superior will eliminate the inferior. The government may apply indirect macroeconomic regulations such as regulating the interest rates, tax rates, and exchange rates. The SEZs basically have met this condition. This kind of enterprise operating mechanism can directly link up with the enterprise operating mechanism in a market economy. Our task from here on is to further perfect this setup.

The second condition is to internationalize the urban functions. The SEZ cities' current functions have attained elementary international standards. In the future, we must meet the basic requirements of the internationalization of the urban functions even better and vigorously develop the tertiary industry and the infrastructure, including internationalizing finances and developing securities and foreign exchange markets; diversifying the export trade and developing transnational enterprise groups; developing international shipping, aviation, and communications network; strengthening deep-water port facilities, developing the information industry, and providing legal and accounting consultation services and so on. There is still room for vigorous development and gradually perfection in these areas.

The third condition is to implement a special-tariff-zone policy in the SEZs. Currently, the Shenzhen SEZ has already set up a tax-free capital goods exchange, bonded

warehouses, and a tax-free zone. A new decision needs to be made in this area—the SEZs should adopt a special-tariff-zone policy.

A possible program we can consider when implementing the special-tariff-zone policy in the Shenzhen SEZ is to designate the part of Shenzhen immediately adjacent to Hong Kong the "first line" and turn that into customs' export management line. The first-line customs can emulate Hong Kong's experience and promulgate special tariff zone regulations to manage the comings and goings of commodities, funds, and personnel. We can designate the part of Shenzhen SEZ adjacent to the non-SEZ area the "second line." Customs should regulate imports and exports and the comings and goings of funds and personnel according to the state's unified regulations. Non-SEZ commodities entering the "first line" are deemed exports. Conditions are ripe for taking this step, and as soon as the state makes the final decision, it can be put into effect.

The fourth condition is to adopt an international monetary system in the SEZs. A possible program we can look into may be to permit the circulation of the Hong Kong dollar in the "Greater Hong Kong" open economic sphere in 1997 and at the same time abolish the foreign exchange control system. Thus we must reform the way the Hong Kong dollar is being issued and allow the four local banks in the "Greater Hong Kong" open economic sphere issue Hong Kong currency so that they can share the risks and the benefits. Whether Macao's currency should be retained is subject to further studies.

**(B) We must take three separate steps** The first step is to let Shenzhen move ahead of the others and let the Shenzhen SEZ adopt the special tariff zone policy. By expanding the scope of opening up, we let Shenzhen link tracks with Hong Kong and create a preliminary open economic sphere to gain some experience.

The second step is to adopt the special tariff zone policy in the Zhuhai SEZ so that Zhuhai can link tracks with Macao to form a preliminary Macao-Zhuhai open economic sphere.

The third step will take place between 1997 and 1999, completing the "Greater Hong Kong" open economic sphere consisting of Hong Kong, Macao, Shenzhen, Zhuhai, and the Dayawan Planning Zone. Inside the "Greater Hong Kong" open economic zone, we will implement a unified international monetary system—circulating Hong Kong dollar and eliminating the foreign exchange control system. This is the decisive step in the creation of the "Greater Hong Kong" open economic sphere.

### 4. How Do We Give Play To the Fallout of the "Greater Hong Kong" Open Economic Sphere?

There are two clear goals in creating the "Greater Hong Kong" open economic sphere:



The first is to usher in a new phase to the "Greater Hong Kong" open economic sphere's economic development. This point needs no further discussion.

The second goal is to give play to the fallout of the "Greater Hong Kong" open economic sphere. This matter needs to be amplified.

The "Greater Hong Kong" open economic sphere has its two-way fallout:

Externally, it will have an effect on Europe, America, Japan, Southeast Asia, Korea, and the Middle East and so on. It will become an international financial, trade, shipping, and information center.

The internal fallout of the "Greater Hong Kong" open economic sphere will be felt at several levels:

At the first level will be the Guangdong-Hong Kong-Macao economic fallout zone. Currently the center of the fallout zone will be the Zhujiang Delta which includes Guangzhou. In the future, it will expand to east Guangdong, west Guangdong, and north Guangdong.

The second level will be the South China region, including Hunan, Guangxi, Jiangxi, and Hubei.

The third level will be mainly in terms of trade and finances, which will impact the whole of China.

Actively giving play to its impact is the basis of the "Greater Hong Kong" open economic sphere's survival, development, and prosperity.

#### **5. What Is the Objective Basis For Creating the "Greater Hong Kong" Open Economic Sphere?**

To create the "Greater Hong Kong" open economic sphere to serve the interested of all parties is its objective basis.

—Serving the needs of Hong Kong and Macao's economic developmental interests: Hong Kong and Macao's further development and prosperity are constrained by the lack of land resources, labor resources, and urban swelling and other conflicts. Creating the "Greater Hong Kong" open economic sphere can supplement these resources and help branch out the shipping lanes to ease the many conflicts in their economic development. Thus, creating the "Greater Hong Kong" open economic sphere should first serve Hong Kong and Macao's developmental interests.

—Serving the needs of Shenzhen and Zhuhai and Dayawan Planning Zone's expanded opening up, so that Shenzhen, Zhuhai, and the Dayawan Planning Zone can enter directly into the international market.

Serving the regional interests of the fallout zone and serving national interests: First, we want to serve the developmental interests of the Zhujiang Delta which includes Guangzhou and of the whole of Guangdong Province and meet the needs of the nation's effort to further open up.

#### **6. What Is the Subjective Condition for Creating the "Greater Hong Kong" Open Economic Sphere?**

The subjective condition for creating the "Greater Hong Kong" open economic sphere is to liberalize our thinking even more. This means coming up with more new ideas about opening up. Creating the "Greater Hong Kong" open economic sphere is this kind of new thinking.

Some comrades may ask, is it possible to have two social systems within one economic sphere? China's political practice has already answered this question. If one country can accommodate two social systems (one nation, two systems), why can't one economic sphere accommodate two social systems (one sphere, two systems)?

Today, economic competition is increasingly intense in the world, and one of the countermeasures to ease this kind of conflict is through economic integration of different nations, including regionalization and the creation of blocs. The European Community is an example. In 1991, the EEC started with the "Coal and Steel Community" and eliminated tariff restrictions on coal and steel between nations and adjusted shipping costs and prices and directly coordinated the member nations' coal and steel production and foreign trade. In 1979, they set up a "European Monetary System," ushering in a new phase to their economic integration. Today, the "European Community" is striving to complete the creation of a large internal unified market by the end of 1992 as scheduled, and they are expanding to central and eastern Europe. According to EC committee estimates, the creation of the unified market will save the five nations around \$315 billion, and in five to six years' time, their GDP will increase 4.5-6.5 folds; consumer prices will drop 6 percent, and as many as 5 million new jobs will be created. If the sharp conflict of interests among capitalist nations can be smoothed out, why can't China coordinate the regional interests within its own country?

The free-trade zone between the United States and Canada is another example. In 1989 the US-Canada free trade agreement was put in place, and they intend to eliminate all tariffs between them within 10 years, creating a US-Canadian free trade zone.

Whether we are talking about the European Community or the US-Canadian free trade zone, both are exclusive to different degrees and both are tainted with trade protectionism. The "Greater Hong Kong" open economic sphere does not subscribe to economic regionalism and is not an economic bloc. It is marked by mutual benefits and openness and characterized by opening up and integration and internationalization of its urban functions; it is not exclusive in nature. Thus, the "Greater Hong Kong" open economic sphere will be full of vitality and will be supported by international social forces opposed to trade protectionism. The open economic sphere will further develop; its scope will

expand, and its functions will grow. Some people predicted that while we looked to Guangdong for opening up in the 1980's, in the 1990's we should keep our eyes on Pudong. I hope this prediction comes true. But if we take the steps toward creating the "Greater Hong Kong" open economic sphere in the 1990's, things will change, and perhaps by the 21st century, Pudong will lag behind the "Greater Hong Kong" open economic sphere.

## POPULATION

### Concern Over Rural Population Growth, Inbreeding

93CE0139B Beijing RENKOU YANJIU  
[POPULATION RESEARCH] in Chinese No 5,  
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[Article by Yan Tiansan (7051 1131 0005) Jin Cao (7246 5430), members, Nanyang Prefectural Party Committee, Henan Province: "Concern Over Negative Population-Selection Phenomenon—Economic Considerations of the Impact of Family Planning on Population Growth"]

[Text] Although China has been practicing family planning since the early 1970s, which has brought a sharp drop in the population growth rate and remarkable population control success, we can see that family planning still contains certain problems that warrant attention. The most glaring ones are: 1. Family planning is strict in the east and lax in the west, and as yet does not touch the northwest, particularly its minority nationality regions; 2. While family planning measures are diverse and complete in cities, they are weak in rural areas, where there have been family planning difficulties; 3. The birth of disabled children has become a massive hidden peril for the quality of the Chinese nation. These problems are leading to concern over negative population-selection order.

### I. Northwest-Southeast Slant—The Sharp Increase in the Northwest and Minority Nationality Region Populations

In his 1935 paper on "China's Population Distribution," China's famous population geographer Hu Huanyong [5170 3562 1661] was the first to draw a straight line from Yuanhui (present day Heihe) in China's northeast Heilongjiang Province to Tengchong in southwest Yunnan Province, dividing China into two parts. He consequently discovered that the northwest accounted for 64 percent of China's land area, but only 4 percent of the population, while the corresponding percentages in the southeast were 36 percent and 96 percent respectively, giving us an extremely uneven regional population distribution. In the 1980's, famous sociologist Fei Xiaotong [6316 1321 6639] drew a straight line from Mohe, Heilongjiang to Ruili, Yunnan, reaching almost the same results and conclusions as in the previous example.

#### Hu Huanyong's 1935 Line from Yuanhui to Tengchong

Northwest	Southeast
Area: 64 %	Area: 36 %
Population: 4 %	Population: 96 %

#### Fei Xiaotong's 1980s Line from Mohe to Ruili

Northwest	Southeast
Area: About 50 %	Area About 50 %
Population: 4 %	Population: 96 %

10 Northwestern Provinces, Autonomous Regions	21 Southeastern Provinces, Municipalities, Autonomous Regions
Area: 68 %	Area: 32 %
Cultivated land: 30.5 %	Cultivated land: 69.5 %
Population: 19.2 %	Population: 80.8 %

If we use the economic development level, population growth rate, and current administrative divisions (for ease of calculation) to draw a jagged line along the southern borders of Heilongjiang and Inner Mongolia, the northwestern borders of Shaanxi and Sichuan, and the eastern borders of Guizhou and Guangxi, we can also divide China into the northwest and southeast. The northwest, including 10 provinces and autonomous regions such as Heilongjiang, Inner Mongolia, Ningxia, Gansu, Xinjiang, Xizang (Tibet), Yunnan, Guizhou, and Guangxi, has a land area of 6,529,594 square kilometers, or 68.02 percent (more than two-thirds) of China's area, and a cultivated area of 436,991,000 mu, or 30.46 percent (less than one-third) of China's cultivated area of 1,434,840,000 mu. A conspicuous feature of change in the northwest in recent years is the very rapid increase in the ratio of its population to the national population. Statistics show that the ratio of the population of the 10 northwestern provinces and regions to the national population has rapidly increased, from less than one-seventh in 1953 to nearly one-fifth by 1990, despite the large population flow from this region to the southeast during a decade of reform. The key problem is that, despite the steady population flow to the southeast, the northwest's natural population growth rate is still far higher than that of all provinces and municipalities in the southeast. The 1982 census data showed that the southeast's 19 provinces and municipalities (not including Taiwan), excluding the four provinces of Guangdong (along with Hainan), Fujian, Henan, and Hebei, all had natural population growth rates lower than the national average (14.55 percent), while 9 of the 10 northwestern provinces and regions, except for Gansu, had natural population growth rates higher than the national average. By the fourth census in 1990, the national average for natural population growth rate had increased in 8 years to 14.7 percent, while 8 of the 10 northwestern provinces and regions had population growth rates higher than this average. The two provinces that had lower rates than the national average were very close to it, i.e., 12.18 percent

for Heilongjiang and 14.33 percent for Inner Mongolia. Much thought needs to be given to the fact that while the national economic center has been moving to the southeast and not to the northwest, the ratio of the northwest population to the national population has risen from one-seventh to one-fifth in less than four decades.

Meanwhile, since most of the northwest is made up of minority nationality regions, we are forced to study the problem of the too rapid growth of the minority nationality population. The nationality population policy that has gradually evolved in China since its founding essentially encourages population growth among minority nationalities, and so the growth rates of the minority nationality population have increased sharply. For instance, statistics show that the birthrate in the Qinghai-Xizang Plateau rose from an average of about three births per woman in the 1940's, to 3.5 in the 1950's, and to about 5 by the 1960's. The birthrate of the Mongolian population in Inner Mongolia's livestock-raising region rose from 20.3 percent in 1949 to 40.5 percent in 1964, and then fell slightly to 40 percent by 1970.

Since China began practicing family planning in the 1970's, its policy of encouraging minority nationality population growth has continued. For instance, the report of the National Working Conference on Family Planning organized by the State Council's Leading Group on Family Planning in September 1977 still proposed "adopting policies favorable to population growth in sparsely-populated minority nationality regions." While we have achieved tremendous national family planning successes since 1982, minority nationality policies have remained lenient: In the Guangxi Autonomous Region, we recommend one child per couple only for the Zhuang nationality, while allowing other minority nationalities to commonly have two, or in hardship cases even three, children. In Inner Mongolia, except for recommending only one child per couple for the Han nationality, couples of Mongolian nationality in cities are allowed two children; while rural family planning there generally allows two children per couple, three children are permitted for couples in border regions that are purely livestock-raising areas, as well as for other minority nationalities. In Xinjiang, we stipulate only that urban couples do not have four children, and that those in farming and livestock-raising areas do not have five. In Yunnan Province, 58.5 percent of the population is allowed two children per couple, while the 38.2 percent of the population that lives in cold, high-altitude border regions is allowed three; all we do in rural areas close to the national border is provide positive family planning education. In Xizang, except for cadres, employees, and urban residents, we do not provide any family planning. In Ningxia, while we recommend that cadres and employees have only one child per couple and allow peasants to have a maximum of two, those in the eight mountainous counties in the south are generally allowed two, and a maximum of three. These differing policies have allowed China's minority nationality population to grow faster in the last three decades than the national average. For details, see table 1.

**Table 1. Ratio of Minority Nationality Population to National Population**

Date	Population (per 10,000)	Percentage of National Population
1 July 1964	4,000	5.76%
1 July 1982	6,724	6.7%
1 July 1990	9,120	8%

Data sources: PRC Data Manual, p 69; Bulletin on Key Data in the 1990 Census, No 3

Table 1 shows that from 1964 to 1990, the minority nationality population grew 128 percent (while national population grew an average of 56.7 percent), and that the minority nationality population even grew 35.6 percent from 1982 to 1990 (while national population grew only 9.8 percent). Projecting from the 1982-1990 average population growth rates, by the year 2048 China's population will be 1.987 billion, while the minority nationality population will have reached 567 million, or 28.5 percent of the national population.

While the nation's nationality population policy has played a certain positive role in the socioeconomic development of all minority nationalities, the sharp increase in the northwest population, particularly among its minority nationalities, has also caused the following corresponding problems which warrant attention: The first problem is poverty. It is reported that sharp population growth has reduced Xinjiang's per capita national income from 12.01 percent higher than the national average in 1949 (at a ratio of 96.37 yuan to 86.03 yuan) to 23.44 percent lower than the national average (at a ratio of 575.57 yuan to 751.84 yuan). Xizang had a 1984 GVIAO of only 00.6 yuan per sq km. The second problem is environmental degradation. In Inner Mongolia, the sharp population increase from 15 people per square kilometer in 1949 to 60 by the 1980's, along with overgrazing that has increased the desert and gobi area to 39.5 million hectares, or 33.5 percent of the whole region's land area, have resulted in the desertification of 5.333 million hectares, or one-third of the entire livestock-raising grasslands area. The third problem is that the ecological crisis and population growth have driven the northwest population into more cramped living spaces. For example, Xizang's population lives mostly in lake basins and in the Yarlung Zangbo Jiang river-bend plains, which make up only 23.5 percent of the whole region; 67.7 percent of Qinghai's population is crowded into the city of Xining and the region east of Qinghai Lake, which make up only 2.8 percent of the whole province's area; and 90 percent of Xinjiang's population is squeezed into oases formed from melted ice and snow from the Tianshan Mountains, which make up only 3 percent of the region's area. In the latter instance, the population density is 475 people per square kilometer, far above the figure of 416 for the lower reaches of the Huang He. The fourth problem is that such conditions have brought a trend of excluding development-type



population entry to the northwest, bringing a reverse population flow as follows: Heilongjiang Province, which had a net in-migration of 7 million in the first three decades after the founding of the PRC, has become China's region with the greatest net outflow; Xizang, Xinjiang, Gansu, and Qinghai are close behind, with Qinghai Province having China's highest population out-migration rate; and the northwest suffers even more from senior and mid-level talent "flying off like peacocks to the southeast." One university in Lanzhou lost 111 teachers to the east from 1983 to 1985. Since the key to the northwest's development is an inflow of technology, capital, and skilled, development-type populations, the current trend in population flow is undoubtedly making its development even more difficult. An even grimmer matter is that the northwest's population growth is bringing it a younger population age structure, which is likely to have an acceleration effect on its population outflow. While the southeast has begun to feel the effects of a rapidly aging population, the northwest's "younger-growing" population is becoming even more conspicuous. In 1987 in Qinghai Province, which has the nation's youngest population age structure, the 0-14 age-group made up 35.8 percent of the whole population, with the median age being only 20.4 years. The minority nationality population has an even younger age structure. Data from the 1982 census showed that, of the 15 minority nationalities with populations of over 1 million, the 0-14 age-group made up more than 40 percent of the population in 5 nationalities, and more than 38 percent in 8.

## II. Rural-Urban Contrast—The Rural Birth Wave

China is still a large agricultural country, with the rural population having accounted for over 80 percent of the population for many years. China's rapid population growth is due mainly to an expansion in the rural population. The rural population of 447.26 million in 1949 grew to 536.4 million by 1959, an increase of 89.14 million and growth rate of 20 percent for the first decade after the founding of the PRC. It reached 682.68 million by 1969, up 146.28 million, for a growth rate of 27 percent in the second decade. By 1979 it was 813.56 million, up another 130.86 million, for a 19 percent growth rate in the third decade. By 1987, it had climbed to its peak of 857.13 million. Thus, despite the flow into cities, in a short 38 years the rural population still grew a net 91.64 percent.

While some have blamed the resurgence of rural population growth in recent years on rural economic reforms symbolized by the responsibility system of linking remuneration to output, I cannot agree with this. What those who make this charge do not seem to realize is that while rural population grew an average of 22 percent a decade in the 30 years before reform, it increased only 5.4 percent from 1979 to 1987.

I believe that the key factor in "runaway" rural population growth is not reform, but rather that we have not yet found a good population-control mechanism suited to

the agricultural production responsibility system; we have not overcome the inertia effect created when an agricultural society regards population as a productive force and population growth as the means of production growth, from which the view "more children mean more wealth" has grown; and that we have not realized the hardening of this view due to the negative impact of certain social policies. We will take these up in detail as follows:

—Due to the differing impact of population on production growth in areas at various levels of economic development, advanced areas that use capital and technology growth as their means of increasing production generally have higher family-planning rates and lower multiple-child rates, while agricultural areas that regard population growth (mainly workforce growth) as their means of increasing production have lower family planning rates and higher multiple-child rates. The data from a 1988 State Statistical Bureau sampling of population change shows that the five more industrialized provinces and municipalities of Shanghai, Liaoning, Jilin, Beijing, and Tianjin have family planning rates of 97.77, 94.51, 87.41, 85.08, and 80.98 percent, respectively, but multiple-child rates of only 1.12, 1.41, 2.41, 1.79, and 2.59 percent respectively. At the same time, the five mostly agricultural provinces of Hebei, Anhui, Henan, Jiangxi, and Shaanxi have family planning rates of only 50.25, 53.04, 53.46, 32.01, and 46.36 percent respectively, but multiple-child rates as high as 19.33, 21.49, 17.01, 21.49, and 23.78 percent respectively. This forms an order in which population growth rates are higher in mostly agricultural provinces than in industrialized provinces and municipalities.

For the same reason, the rural population is growing much faster than the urban population. Data for 1981 from the State Statistical Bureau's Population Statistics Office show that China's urban couples had a one-child rate of 87 percent, but a multiple-child rate of only 1.7 percent, while those in rural areas had a one-child rate of only 42.6 percent, but a multiple-child rate of up to 30.9 percent. By 1986, population samples had found that while the rural one-child rate was still only 46 percent, the rural multiple-child rate was still as high as 20.1 percent; that 62 percent of rural married women of childbearing age, from 30 to 49, had more than three children; and that rural above-quota births accounted for 94.2 percent of those throughout China. The rural-urban contrast is even greater in population birthrates. The rural population birthrate was 17.9 percent in 1984, 19.17 percent in 1985, 21.6 percent in 1986, 22.01 percent in 1987, and still as high as 20.78 percent by 1988, averaging 4 to 5 points higher than the urban birthrate. The birthrate since 1980 has averaged 2.84 in rural areas, but only 1.33 in cities, meaning that it has been more than twice as high in rural areas as in cities. The population net growth rate for the years between 1984 through 1987 was higher in rural areas than urban

areas by 4.95, 6.21, 5.31, and 5.2 times, respectively. The trend of the rural population outselecting the urban population is very striking;

—Due to poor population-control mechanisms, there is conflict between certain related policy measures, which has resulted in negative selection within the rural population. This can be seen mainly by the following: 1. We advocate population control while designating land contracts based on the household size and frequently adjusting the contracts according to population changes. Most housing base plans are based on the number of males in the household. Since land is still the peasants' major economic resource, this undoubtedly plays an indirect role in encouraging childbearing. 2. Rural family planning is enforced essentially through the imposition of fines. This has made above-quota births open and rational, because peasants who have more children and consequently acquire more land resources are more capable of paying the fines. Most of China's 3.08 million second-child births—which did not conform to the childbearing policy—in 1989 belonged to this category. 3. Divided family planning policy, which is strict toward the permanent population but lax toward the floating population, leads to "above-quota-birth guerrillas" being found everywhere. "Above-quota-birth-guerrilla" villages have even appeared in some remote border areas. Of a national floating population of 50 million in 1989, over 80,000 were in Guiyang alone, and 80 percent of these were women of childbearing age. Such people unscrupulously vie with each other for above-quota births, and are as yet untouched by family planning. These factors have promoted an order in which "those with money pay (fines) for their extra children, those who are brave compete to have extra children, and those who have neither money nor bravery have extra children on the sly." This has led to the family planning phenomenon where violators of basic national policy eliminate through competition those who observe law and discipline.

—Our underestimation of the negative impact of certain social policies has encouraged this phenomenon of negative selection within the population. The problem is more serious with regard to poverty-relief policy. While the socialist government is responsible for providing appropriate aid to people in poverty-stricken areas, and the people throughout China concur in this, the problem is that some poverty-stricken areas depend on assistance to subsist on the one hand, while having many children on the other. This prevents a change of the face of poverty, causes a sharp increase in population, and puts a heavier burden on the nation. Take Gansu Province, where per capita GNP is the lowest in the nation, as an example. While Gansu has received continuous aid because of its poverty, its population of 5.62 million in 1933 grew to 11.59 million by 1953, and increased sharply to 20.85 million by 1987. Data from the third census show that in 1981 2.05 million, or 57 percent, of Gansu's women

of childbearing age—between the ages of 20 and 49—had more than three children. These women had an average of 4.8 children each, with 49,840 of them actually having 10-15 children. Take the example of Shanxi Province's 35 poverty-stricken counties, such as Taihang, Taiyue, and Luliang. Statistics provided by Li Shaoxian [2621 4801 0341] of Shanxi's Family Planning Commission show that 3.43 million people in these 35 counties, or 75 percent of the rural population, did not have sufficient food and clothing in 1984 and had per capita incomes that were 30 percent below the provincial average. Yet while in 1985 Shanxi began providing these counties with financial and material aid worth 50 yuan per person annually, and while poverty-relief funds had accumulated to 850 million yuan by 1988, it was precisely during these same years that these 35 counties experienced an 8-percent growth in population. Growth rates averaged 2 percent annually, or 0.8 percent above the provincial average, and the area had a population of 4.95 million, or 18 percent of Shanxi's population. These 35 counties had 200,000 births in 1988 alone, or 33 percent of all provincial births that year, making it the period with the fastest population growth for these counties. It was precisely this sharp population growth despite rapid economic development that lowered the per capita income for these 35 counties from 30 percent below the provincial average in 1984 to 42 percent below by 1988. It is obvious that while the aspirations to simply aid the poverty-stricken were good, they abetted the negative selection of populations in poverty-stricken areas over more wealthy ones.

Meanwhile, it needs to be pointed out that the sharp increase in rural population is forcing a decline in rural education. China has only 6.6 agrotechnicians per 10,000 in the agricultural population, leaving each agrotechnician responsible for 7,000 mu of cultivated land, each veterinarian responsible for 7,000 head of livestock, and each livestock technician responsible for 2.3 million mu of grazing land. In addition, 60 percent of existing S&T achievements applicable to the livestock industry are not widely disseminated, raisers of livestock wait for S&T help, and the burden of sharp population growth prevents educational opportunities for many rural children and youths. Statistics show that at least 3 million rural school-age children in China do not go to grade school, 6 million grade schoolers do not go on to high school, and 35 percent of those over 15 are illiterate—10 points higher than the average world illiteracy rate in 1988; yet it is precisely these people who have a pressing need to migrate to cities. While projections for the years from 1987 to 2000 are that 190 million rural surplus workers will need to migrate to the cities, it is highly doubtful that their education will make them suitable for urban life. It can be said that not only are there indications that the rural uneducated population is outselecting the rural educated population, but also that this population phenomenon of negative selection is knocking loudly at city gates.

### III. Imbalance Between the Healthy and Disabled—What Is the Origin of Our Disabled Children?

The data from China's first sampling of its disabled population on 1 April 1987 shows that China now has a disabled population of 51.64 million, including 17.7 million who are hearing- and language-impaired, 10.17 million who are intellectually deficient, 7.55 million who have deformed limbs or impaired vision, 1.94 million who are mentally deficient, and 6.73 million who have multiple disabilities. This is based only on the current five categories of disability. If we counted the disabled population according to the World Health Organization's nine categories, it would total almost 100 million, the highest in the world. These figures may actually be lower than the reality. According to the calculations of Jiao Ya [3542 7161] and Zhang Qingchun [1728 3237 3196] in JUECI TANSU [POLICY STUDIES] No 2, 1990, China has 55 million people who suffer from dementia alone.

China's family planning proceeds by considering disabled children's future lives and humanitarianism, and provides couples who have had children with nonhereditary disabilities the chance to have more children, especially since we lack a complete social security system for the disabled. While this was understandable in early family planning work, because it helped to reduce startup difficulties, it has already had harmful consequences (current medical practice finds it hard to determine whether some disabilities are hereditary or not), in that we have a glaring problem of disabled persons in a great many regions. In Gansu Province, there are 262,000 people in the category of retarded children alone, and the number grows at a rate of more than 2,000 a year. In the Tujia and Miao nationality autonomous prefectures in western Hunan, the population of 2.8 million includes 153,900 who suffer from goiters (swelling of the neck), for an average disease incidence rate of 5.49 percent. Also, the average incidence rate for dementia is 6.21 percent, and the disabled who suffer from both these diseases make up 11.7 percent of the total population. An even more serious problem is that there are still many births of disabled people, and most of their diseases are probably hereditary. It also needs to be pointed out that factors such as marriage between close relatives or early marriages also constantly produce

another type of disability throughout China. A survey in the area of Yancheng, Jiangsu finds that marriages between close relatives account for 3-5 percent of marriages, and in some places the figure is as high as 10 percent. Everyone knows that the probability of disabled children is much higher in marriages between close relatives than in normal marriages.

Most disabled persons are net consumers who, in a country with such a huge population, have created an immense social burden. As to the 850,000 new children with disabilities born each year, the most conservative estimate of 500 yuan per person a year means that it will cost society an added 4.25 billion yuan to raise them, in addition to the difficulties they cause for their families. It is reported that Wangjiang Village, Huangmei County, Hubei, has 184 particularly impoverished families. Of these, 98, or 53.7 percent, are in such straits because of family members who suffer from dementia, retardation, and hereditary diseases. Thus, while the negative selection of the disabled over the healthy is a new development, it is certainly the most damaging trend of negative selection. In short, existing family planning control and policy defects have brought a very abnormal growth trend to China's population. This is in the form of a northwest-southeast contrast in which the population of the economically and culturally more developed southeast is being gradually out-selected by the more backward northwest. As to the urban-rural contrast, the better-educated urban population is being submerged by a surging wave of rural births; the population size in industrialized zones is being left far behind by the population size in agricultural regions; the rural population is growing faster in impoverished areas than in more affluent ones; and we have large numbers of above-quota births in areas with high illiteracy rates, while the areas with better-educated populations practice family planning. With regard to the contrast between the healthy and disabled, healthy couples are satisfied with having one healthy child, while the disabled population's multiple births probably result in children with various types of hereditary diseases.

Thus, whether we like to admit it or not, this negative selection phenomenon is an existing undercurrent in China's population growth. Since it would be unrealistic to allow it to continue, it is now time to reexamine our realities by exploring better policy measures for family planning.



## Increasing Crimes Committed By Roving Criminals Analyzed

93CM0062A Shanghai SHEHUI [SOCIETY]  
in Chinese No 93, 20 Oct 92 pp 34-37

[Article by Zhao Ronggen (6392 2837 2704): "Population Control and Roving Criminals"]

[Excerpts] [Passage omitted]

### I. The Main Characteristics and the Trend of Development of Today's Roving Criminals

[Passage omitted] Crimes committed by roving criminal are not like those committed by regular residents nor like those committed by the ordinary mobile population; they are much more dangerous, and they are marked by the following five characteristics:

1. The broadness of the regional scope of crimes: The whereabouts of the roving criminals are unpredictable. They bounce back and forth between cities and the countryside and are highly mobile and traverse a large region. They mingle with the mobile population and roam about year-round, looking for room and opportunities to commit crimes as they move about. They never stay put, and after a successful hit, they make their getaway as quickly as possible. To attain even bigger criminal goals, they often make use of modern means of transportation and commit crimes within an area of several thousand kilometers, in the cities and the countryside, crossing county lines, city lines, and even provincial boundaries. Nationally, they are all targeting regions with a fast-growing commodity economy and are concentrating in large and medium-sized cities and along the railway trunk lines. Because the railroads are linking the large and medium-sized cities and are also the principal conveyors of people, money, and goods, compared to other forms of transportation, traveling by train offers such advantages as easy access to tickets, easy access to destinations, 24-hour service, long distance and high speed and more. It not only provides the criminal elements with many targets of crime but also provides them with easy getaway. Thus, train stations and rail trunk lines have become high-crime areas where criminals are most rampant.

2. Complexity of the criminal elements: The makeup of the roving criminals is very complex. They come from every religious sect and school of thought; there are all kinds. Some of them have been "in the palace" three or four times—repeat offenders and hardened criminals. Some are escapees from the reeducate-through-labor and reform-through-labor camps; some are wanted criminals; many are roving criminal elements who have committed repeated crimes but have never been caught and therefore never punished. These three types of people have become professional criminals, and except for those who act alone, most are leaders or backbones of roving criminal syndicates and gangs and are the most dangerous of the roving criminals. Moreover, there are those who mingle with the aimless mobile population. These

people once had high hopes when they came to the cities expecting to strike it rich, but once their dreams of paradise are dashed, they embark on the road of crime and even risk all and resort to murder and robbery, landing themselves in the quagmire of crimes where they cannot extract themselves. There are others who are mixed in with the outside temporary workers, public project laborers, and contingent of housekeepers. They do legitimate work when there is work and commit crimes when there is no work, or they do both at the same time, and theft is often their main offense.

3. The insane character of the crimes: The roving criminals are experienced criminals and have clear criminal intentions. To achieve their criminal goals, they are always on the lookout for people with similar intentions as they roam about, or they form gangs or syndicates based on blood relations or regional ties; they either share regional proximity or are thrown together by chance. There is clear division of labor among them. One person does the actual work while many others give him cover, and they cooperate and commit many crimes within a short period of time. Their criminal activities may take many different forms, including theft, robbery, murder, rape, and fraud. Notably, the southward-moving criminal elements up north are more prone to gang together to commit violent robbery while the northward-moving criminals down south are primarily into smuggling and fraud. They are reckless and audacious and there is no crime they would not consider. They bring crime to wherever they roam. They are unscrupulous and very vicious. In recent years, there have been many cases of taxicab drivers being robbed in Shanghai, and most of them were done by roving criminals. Many have committed murder and robbery in Guangzhou, Hangzhou, Suzhou and elsewhere. In some cases, the drivers were killed regardless of whether they had resisted. This has become a serious threat to society.

4. The treacherous nature of the crimes: Most roving criminals have a fairly long criminal record and are very experienced. They have no permanent home, and like a wily hare with three burrows—they have many hideouts. They are constantly changing their tactics and often disguise themselves. They are experts in camouflaging and covering up the crime scenes. When it comes to committing crime, they are "all weather" and "all direction." They will commit a crime in City A, sell their loot in City B, and hide out in City C and are constantly on the move to avoid being captured by special government units. They have been punished before and know the power of the law, but, at the same time, they have crossed paths with the judicial organs and are very familiar with the laws and provisions and with the way the public security departments handle the investigations and interrogations. They have continuously come up with new ways to deal with the interrogations and crackdowns. If they are caught, they would either refuse to say anything or deny everything, or they would confess to minor offenses but not the major crimes. Or they play dumb and submit phony names and addresses,

or they may even swallow substances to hurt themselves, taking advantage of the law that requires a speedy trial, and once they are freed or released on bail to seek medical help, they would try their best to escape and avoid legal sanction.

5. The foreign-ties behind the criminal activities: Since reform and opening up, foreign and outside crime syndicates and criminal elements have continued to infiltrate this country and join up with the criminal elements in this country. They set up bases and networks and engage in smuggling, drug trafficking, fraud, counterfeiting, abduction of women and other crimes. They have turned China's coastal open cities into important contact points, transit points, and collection and distribution points for their urban criminal activities. In turn, they stretch their criminal hands across the country, netting cohorts, and trying in vain to set up an organized crime network in this country. In recent years, especially, international drug syndicates and lawless elements in this country have stepped up efforts to open up an international drug trafficking passage from Burma's "Golden Triangle" to Yunan and Guangdong and then to Macao and Hong Kong and on to Europe and America. They take advantage of Guangdong's superior geographic location and turn it into the transit station of international drug trafficking route and engage in flagrant drug-related crimes, and as a result, opium and heroin and other drugs which disappeared in China for many years are making a comeback and are spreading rapidly, posing a serious threat to society. Outside crime syndicates have also stepped up their infiltration. They either act independently or gang up with factions with underworld connections in the mainland to open restaurants and bars and operate dance halls and karaoki and other entertainment centers while covertly engaging in various criminal activities. [passage omitted]

## II. The Main Causes of Increased Crimes Committed By Roving Criminals

Crimes committed by roving criminals are only part of the crime phenomenon, and there are many complicated reasons behind their increase. It is the author's opinion that the increase is attributable mainly to society's change from static state to dynamic state, to society's management structure and mechanisms' failure to keep abreast of this change, and to its diminished ability to control crimes. The imbalance between the development of the commodity economy and the development of society's crime prevention and control mechanisms is one of the main causes, and this is manifested in three areas:

1. Failure of the control mechanisms: Statistics show that in 1988, the country had a mobile population that exceeded 50 million people, a large percentage of which could be found in the large and medium-sized cities along the southeastern coast where the commodity economy was developing fairly rapidly. The surge in the mobile population exceeded by far the cities' handling

capability, creating tremendous pressure on urban management and public security, and control over the mobile population was especially difficult. First, mobile population management has always been a weak link. We do not have a scientific and accurate statistical system which allows us to gather regular and accurate information and provide feedback on the makeup of the mobile population at different levels, and we have little idea of the movements of the mobile population, and as a result, management tends to be arbitrary and shortsighted. Second, our basic mobile population control measures are ineffective. Household registration as the state's basic means of social control functioned well in the planned economic system. But in the face of the huge mobile population created by today's reform and opening up and the development of the commodity economy, the existing household registration system which centers around the management of permanent households is no longer appropriate and cannot execute effective control. Its basic social control capability to maintain public security is greatly diminished. Third, we still do not have a mobile population control system and have not formulated specialized mobile population control laws and regulations, and in many management problems, we lack legal basis and legal means, thus compromising the seriousness and authoritativeness of our management work.

2. Weakened crime prevention mechanisms: After the existing economic structure and management systems undergo changes, many localities' public security defense frontline is greatly weakened. Basic public security and civil mediation organizations exist in name only and can no longer do what they are supposed to do. They turn a blind eye toward criminal elements who bring home the loot after committing a crime, and some are even in cahoots with the criminal elements. As for those who have served time or have been released from re-education through labor, there is no essential supervision and control, even less effort to help them readjust and rehabilitate, so that these people have no time or employment restraints and can do whatever they want; there is no social constraint. In addition, social services, culture and entertainment, and other public facilities that attract all sorts of people have multiplied, which greatly broadens the scope of crime prevention and continues to add to the heavy burden. Society's comprehensive crime prevention and control capability is clearly diminished. In particular, many markets, newly-developed residential areas, cultural and entertainment establishments, hotels, restaurants, and goods and materials retrieval and other businesses lack strict control and security measures, and so long as there is money to be made, few questions are asked, giving the roving criminal elements plenty of opportunities.

3. Lack of effective crackdown mechanisms: As society goes through reform and opening up, many issues concerning the crackdown of roving criminals must be addressed immediately. First, we lack laws and provisions that can be used specifically to crack down on this

new type of crime, and many roving criminal elements who should be severely punished by law are not being punished. Second, the public security contingents themselves urgently need to be strengthened. Our public security organs fall far short of the needs of today's development in terms of staff quality, equipment, and organization. Today, most crimes take place at night, but the security people are preoccupied with daytime work; they work the same hours as other people, and to a certain extent, this has enlarged the loopholes in the crackdown network. Meanwhile, the existing system imposes strict jurisdictional boundaries, and the local public security departments deal only with local public security rather than work together and assist one another to crack down on the roving criminals, and they cannot effectively prevent or deter their criminal activities. Many repeat offenders are never caught, and so psychologically they feel luckier everyday and become even more greedy and insane. Third, the quality of reform-through-labor and reeducate-through-labor is not up to standard. Some criminals exchange ideas and learn from one another and gain new insight and experience and make new plans during the reform period. Some become even more antagonistic and more determined to take revenge against society, and when they are freed or released from re-education, they quickly pick up where they left off. Some drift here and there committing crimes in a frenzy to make up for the "losses" they incurred while serving their sentences or being re-educated. They are a menace to society. [passage omitted]

### Junior Middle School Students Opt for Technician Jobs

93CM0060A Shanghai SHEHUI [SOCIETY]  
in Chinese No 93, 20 Oct 92 pp 42-44

[Article by He Guichu (0149 6311 0443): "Apprehensions"]

[Excerpts] [Passage omitted] The ratio between the number of junior middle school graduates from Tianjin whose first choice was to take the special and technical (or vocational) secondary school entrance examination and the number who wanted to take the regular senior middle school entrance examination was 1:1 in 1985, but by 1990, it was 2.99:1. This change was even more marked in Beijing where the ratio between the two was 0.94:1 in 1985 and 3.9:1 in 1990.

If this is the case in large cities, what of medium and small cities and towns? Faced with ever decreasing numbers of students taking entrance examinations for regular senior middle schools, education bureaus in some cities in Guangxi have had to limit the number of students taking entrance examinations for special and technical (or vocational) secondary schools. Some county education bureaus have even gone so far as to require that the 10 junior middle school graduates having the highest test scores in each class may not apply

for admission to a secondary or a technical (or vocational) secondary school as their first choice. In some counties, education bureaus have even more rigidly ruled that all junior middle school students must apply for admittance to a regular senior middle school as their first choice. [passage omitted]

Clearly, the large numbers of junior middle school graduates, particularly outstanding students, surging into special and technical (or vocational) secondary schools has resulted in a decrease in the numbers of students taking entrance examinations for regular senior middle schools and colleges. In particular, the decline in quality has directly impaired development of the country's higher education and aroused concern among educators.

Why do special and technical (or vocational) schools hold increasing attraction for junior middle school graduates?

### Desire For Security

After graduating from junior middle school in Nanning, 15 year old Young Lin passed the examination to get into a pharmacy school from which he graduated at age 18 and went to work as a quality inspector in a pharmaceutical plant. His salary and benefits there are pretty good, his work is untroubled, and he is content. On the street one day he ran into A Hua, a junior middle school schoolmate, who told him dejectedly, "You chose the right road back then. I wasted three years studying in senior middle school. This year I did not make the list of senior middle school graduates who passed the examination, so it looks as though I will not be able to take the college entrance examination. All I can do is review for a year and take the technical school entrance examination next year. This is like losing four years. If I had it to do over again, I would have taken the road you took three years ago. Ugh! Now I am very upset. Whether I can pass the examination to get into a technical (or vocational) secondary school next year is still an unknown. I blame my mother for insisting too much that I take the senior middle school entrance examination." A Hua walked away sadly, his head down. As he watched him leave, Young Lin congratulated himself for having made the right choice earlier.

Passing the college entrance examination is quite competitive. Some middle to upper level juniors middle school graduates feel that their future prospects for getting into college are problematical; taking a special secondary school examination now and getting a job might be a surer thing. Then, later on, if they are interested, they can go on to get a college diploma. In any case, nowadays there are quite a few "five big" adult institutions of higher education where one can study while earning wages, so why not take that route?

This kind of security mentality is particularly prevalent among students in rural areas. Their success or failure in escaping from farming depends on this. If their choice is even a little bit wrong, they will regret it for the rest of their lives. Even some students who have outstanding



grades are extremely cautious when deciding which application to fill out. They seek security. When Xiaobin, a rural student who scored first in his class at No 1 Middle School in Liucheng County, made his choice after graduating from junior middle school, his class advisor urged him to apply for senior middle school in order to take the college entrance examination later on. But Xiaobin worried that the situation would likely change three years hence, and should he fail to make the list of those who passed the examination to enter senior middle school, he would pay for it. Now he was 120 percent certain of passing the examination to enter a special secondary school, and thus it was that he made up his mind to forget about senior middle school and apply for admission to a special secondary school.

#### **Membership in a Good Unit Better Than a College Diploma**

In today's commodity economy society in which very many people select a career with their eyes on material gain, they have come to the conclusion that "membership in a good unit is better than a college diploma." People feel that units making good economic returns that provide security in both good years and bad, such as the insurance, banking, foreign trade, posts and telecommunications, customs, electric power, and petroleum company fields are a good choice. Even though those who work in such units may be just ordinary cadres or workers, their economic returns are much higher than those of college graduates having the same number of years employment in other units—sometimes twice or several times higher. Furthermore, their housing and other benefits are far superior. Following graduation from East China Teachers College, the younger of two sisters was assigned back to the city to teach in No 2 Middle School. She has been there two years at a monthly income of 200 yuan, and though married, she continues to live in bachelor quarters. Her older sister passed the examination to enter a banking school following graduation from junior middle school, and was subsequently assigned to the Industrial and Commercial Bank in the city. After only one year with the bank, her monthly income is more than 350 yuan, and although unmarried, she has been assigned a two bedroom, one living room apartment.

Of course, if one can get into such a fine unit and have a college diploma too, that is even better. The fact is that there is no certainty of being assigned to such a unit after graduation from college, however, but assignment to units of this kind is fairly easy after graduation from a special secondary or technical (vocational) school. This is because more special secondary and technical (or vocational) schools than institutions of higher education are geared to the work of these units. Furthermore, one has to compete to get into the extremely small number of institutions of higher education that are geared to the work of such units, and getting into them is not easy. It is much easier to get into special secondary and technical (or vocational) schools geared to the work of these units.

Outstanding junior middle school graduates, in particular, who feel they cannot be sure of getting into institution of higher education geared to the needs of such units can now be assured of passing the test to get into special secondary schools geared to the needs of such units.

In order to assure that their children will be able to enter their own "golden nests," some systems are simply operating vocational schools themselves enrollment in which is limited to children within the system. Consequently, children in the system who graduate from junior middle school study in vocational schools instead of senior middle school. A leader in the foreign trade system of a certain province said candidly: "If the children are allowed to study in college, once they are assigned following graduation, it is very difficult for us to get them back if we want them. It is better for us to operate our own vocational schools, assignment authority remaining in our own hands."

#### **Influence of Family Finances**

"Although my grades are very good and I am confident of passing the senior middle school college entrance examination, when I think about how my parents will have to skimp, go without, and endure all kinds of hardships to make enough money to permit us three children to go to college, I cannot bear the thought. When I was a junior middle school student, I could only get a small amount of money from my parents for food each month, and I had nothing to eat but vegetables every day. I would never be able to get through three years of strenuous life in senior middle school on such a diet. Furthermore, my parents cannot afford to pay for me to complete senior middle school and then go on to college. So all I can do is apply for a special secondary school and get a job early to reduce the burden on the family." This is a statement that many students who have been evaluated as "three good" students for three years in a row in a certain county, but who come from families having limited means make when their class advisors talk to them about their choice in filling out an application after graduating from a rural junior middle school.

The standard of living in many rural areas of China is still not high; some places are still fairly impoverished. Consequently, since their family's cannot bear the expense of sending them to senior middle school and college, students choose a short cut, taking the entrance examination for a special secondary school so that they can start working several years earlier. In cities, the family standard of living is usually not so bad, and some families are fairly wealthy; nevertheless, in consideration of the benefits to be gained and because of their emphasis on money, some heads of family also force their children not to waste money and time on a senior middle school and college education, but rather to take a special secondary or technical (vocational) school examination at once in order to beginning earning money earlier.

Submitting to pressure from his father, an outstanding graduate of a certain junior middle school in Guilin named Liang applied to enter a special secondary school. When the student's homeroom teacher visited the family to do some work for the head of the household, the father gave him an accounting using the fingers of his hand as follows: Now he is studying in a special secondary school, and three years from now he will go to work. If he is in a fairly good unit, he will make at least 200 yuan a month, which comes to 2400 yuan a year. If he were to study in senior middle school, three years from now he would still have to go to college for four years. In those four years, he would lose about 10,000 yuan of earnings. After graduation, he would go to work, but his benefits would be no better than those of a special secondary school graduate. Only his basic wage would be 10 odd yuan more than that of a special secondary school graduate, amounting to no more than a 100-odd yuan a year, not enough for him to recoup the 10,000 yuan loss his whole life long. Furthermore, as a special secondary school graduate, he will have four years more years on the job than a college graduate, so he will be no worse off than college graduate when his wages rise in the future.

This accounting is right! The homeroom teacher could say nothing in rebuttal.

#### **College Is Good; It Is Assignment After Graduation That Is To Be Feared**

In recent years, the craze among students taking entrance examinations in large cities like Beijing, Shanghai, and Tianjin has been to apply for admission to special secondary schools under municipal jurisdiction, but they have lost interest in big universities, particularly major universities. The reason is simple. After graduating from a special secondary school under municipal jurisdiction, they will be sure of an assignment in the city, but after graduating from a large university, particularly from a major university, they may be assigned anywhere in the country, and it is extremely likely that they will be assigned to a border region.

Young Zheng, an outstanding junior middle school graduate of a major middle school in Tianjin won first and second honors in a city-wide junior middle school mathematics and physics competition. Nevertheless, all three of his choices for admission were special secondary schools under municipal jurisdiction. His old school principal personally took an interest in Young Zheng, hoping that he would apply for admission to senior middle school in his own school and go to a major college afterward. Young Zheng's response was very curt: "Do not tell me to study hard for another three years before going to college. Even if you were to send me straight into Qinghua University right now, I would not go." At a loss, the old school principal shook his head.

Reportedly he had been influenced by his father's "fate." His father graduated from Qinghua University in 1964 and was assigned to Liujiayia in Gansu Province. Naturally, life in northwest China was harder than in a coastal

city, and for many years he yearned to return to Tianjin. It was not until 1984 that his dream came true after much effort, however. His father mourned the 20 years lost in the hard scrabble northwest.

If this is the case for some students in large cities, it is even more so for some students in other cities and towns. When making their choice, they frequently think too much about their assignment following graduation. Despite good grades, some people do not perform outstandingly. It is better to study at a special secondary school and get a good assignment after graduation than to study at a major agricultural, forestry, coal, or teacher's college and get a bad assignment after graduation. After graduating from Guangxi Teacher's College, Wu Qiuyun was assigned back to his native county to teach in a middle school. He felt that he had "struggled arduously," but had been returned to his mountain region county nevertheless. He regretted having earlier tried to hitch his wagon to a star. Consequently, when his younger brother graduated from junior middle school, he had him fill out an application for admission to the Changsha Railways Locomotive Engineer School since all maintenance sections are inside the city.

#### **Negative Effect of the Mental and Physical Labor Inversion**

[Passage omitted] It goes without saying that the earnings of those who perform physical labor are far higher than those who perform mental labor, and the earnings of those who work in state-owned and collective enterprises are also higher than those who perform mental labor. A 1990 State Statistical Bureau survey showed an average monthly income of 138.98 yuan for a college graduate working in an administrative agency. The average monthly income of a worker who began work in 1985 was 181.19 for a factory worker, 278.75 yuan for a large guesthouse worker, and 325.50 yuan for a worker in one of the three kinds of partially or wholly foreign-owned enterprises. Clearly the inversion between mental and physical labor is great. Consequently, a substantial number of city and town junior middle school students apply for admission to a technical (or vocational) school.

Both of A Bo's parent's are college graduates, so naturally they hoped that their son would be a university graduate, too. But their son had his own ideas. Without letting his parents know, his first choice following graduation from junior middle school was for admission to a vocational school to study cooking. It was not until the acceptance notice arrived that his parents found out. They angrily cursed him for being a ne'er-do-well. After graduation from vocational school, he was assigned to a guesthouse that caters to foreigners and today, two years later, his monthly income is nearly 500 yuan, more than what his parents, who have worked nearly 20 years, make. He has brought home a color television and a video cassette recorder. His parents, who cursed him as a ne'er-do-well, are mute.

### Cold Reception From Contractors

Two engineering students were assigned to a factory, but the factory refused to accept them on grounds that it already had more than the authorized number of administrative personnel. When higher authority directed the factory to accept their assignment, the plant placed the two college graduates in a workshop as apprentices to a recently assigned technical school graduate. When the college students would not submit to this arrangement, the plant manager made a show of doing some ideological work involving mutual study, but behind their backs he said: "You will not submit. Can you college students be like the precision parts that some people's cars require? I would rather place 10 technical school students than one college student."

This treatment of these two college students is by no means an isolated event. An abnormal situation has occurred in recent years in which college students are more difficult to place than the graduates of special secondary schools, special technical school students are more difficult to place than students from technical (or vocational) schools, and students from technical (or vocational) schools are most welcome in enterprises. At a conference that the industrial bureau of a certain city held in the fall of 1991 on the assignment of graduates from colleges and special secondary schools, and from technical (or vocational) schools, more than 1,500 students from technical (or vocational) schools were snapped up by plant managers, but only 170 of 250 students from special secondary schools were taken, and no one wanted 51 of the 98 college students.

Nowadays when all enterprises practice the economic contract responsibility system, some contractors (plant managers or directors) figure that they are successful only when the contract goals have been fulfilled or overfilled within a three or four year contract period. All the technical (or vocational) school students possess skills for certain positions, so they can be put into a position as soon as they are assigned and thus can begin to produce economic returns at once. The special secondary school students, and particularly the university students, possess theoretical knowledge, and even though they can apply their theoretical knowledge to technological updating and transformation, to the improvement of product quality, and to increasing the labor productivity rate, they do not produce immediate results, and they do not meet immediate needs. Therefore, those contractors who look only at immediate benefits are naturally not interested in college students. The cold-shouldered college students say ruefully, "Had I known then what I know now, why should I have striven so hard to begin with?"

### Widespread Corporal Punishment in Schools

93CM0059A Fuzhou JIAOYU PINGLUN  
[EDUCATIONAL REVIEW] in Chinese No 47,  
20 Oct 92 pp 30-33

[Article by Zhang Weiping (1728 4850 1627) and Ai Yongmei (5337 0737 2734), edited by Yan He (7346 4421): "Corporal Punishment in Schools and Ways To Check It"]

[Excerpts] [Passage omitted] While laws in recent years have clearly prohibited both overt and covert corporal punishment of students, these problems have certainly not aroused sufficient attention and vigilance among the public, and among educators in particular. Thus, humiliation and corporal punishment of students still occurs sometimes, and in a wide variety of forms that can be summed up as follows:

**Beating.** Some teachers use implements, such as pointers or rulers, to perform corporal punishment on students, or simply hit or kick them, with those more lightly punished being bruised, and those more heavily punished ending up crippled or even dead. Hitting students with pieces of chalk is also a common form of corporal punishment;

**Tying up.** Some students who disobey the rules or act up in class are tied to their chairs with rope by teachers so that they cannot move. In even worse cases, unruly students who are tied up are then hung up in baskets or sacks for public exposure;

**Forcing to stand.** "Unruly" students may be forced to stand in class, or to face the wall in self-examination, or to stand in the playground as examples, or to lean on the outside windowsill to do written assignments. Some are forced to stand for just one class, while others are forced to stand for the whole day;

**Placing in confinement.** This is generally putting students in solitary confinement in dark and dirty rooms for introspection, and in some cases confining students to teachers' offices or keeping them after school in classrooms, not letting them go home, and not giving them any food or water;

**Depriving of time.** This is not letting students out of school when school should be over, not letting them go home until very late at night, or holding make-up classes during summer or winter vacations, in some cases to make up missed lessons, in others due to violations of class rules, and in yet others "keeping the whole class because one student broke the rules;"

**Forcing to kneel.** Rulebreakers may be forced to kneel on the ground or even on grains of corn, with some kneeling for just one class, and other for half the day, after which punishment their knees are red and swollen, with some even being unable to walk;

**Forcing to do penalty assignments.** Some students who write just one character wrong are forced to rewrite it tens or hundreds of times, with others who get even one answer wrong being forced to do the whole assignment over. Such mechanical exercises really do little good;

**Forcing to do penalty jobs.** Teachers may make rule-breaking students sweep all the classrooms, or put them on all-day student duty for a whole week;

**Forcing to run.** Some teachers make students run in the playground naked, or make them run lap after lap around the schoolground on scorching summer days,



with some suffering heatstroke and others falling tired to the ground and unable to get up. [passage omitted]

Corporal punishment jeopardizes students' psychological development. Corporal punishment can create great psychological harm to students, not only by not convincing them, enhancing their self-esteem, or arousing their self-education initiative, but also by being apt to cause a "guarded," "hostile," and "stubborn" antagonism instead. Or under the coercion of teachers' "authoritarian wills," it can gradually form an abnormal psychology of withdrawal, eccentricity, depression, paranoia, and fear, to turn out people with withdrawn personal characteristics. [passage omitted]

As corporal punishment does such great harm, why does it continue to exist in our daily lives? A careful analysis shows that it can be summed up as being due to the following factors:

The influence of old educational ideas left over by history. Corporal punishment has quite a long history, is very widespread in all countries, and is endorsed for use on students by some educators. In China, our feudal society lasted for over 2,000 years, so feudal ideas are unusually strong, with thousands of years of arguments for corporal punishment for students still filling the heads of certain parents and teachers, and having become their trusted teaching principle. Parents believe in the old adages that "cotton bolls will not open if they are not cultivated, and students will not grow up to be useful if they are not paddled," "if children do not understand, it helps greatly to beat them," and "one whack with a stick produces a better man than does 10,000 words." Teachers believe that "strict teachers produce the best students" and "lax teaching is due to lazy teachers." Some students even call the teachers who beat them "dear teacher." Such is the foundation on which corporal punishment exists;

Poor teacher competence per se. Some of the key factors in the use of corporal punishment are certain teachers having wrong teaching ideas, poor moral character and competence, one-sided, absolutist, and simplistic working methods, and weak legal concepts. Some teachers suffer from "inherent defects that produce acquired deficiencies," i.e., they have not received systematic conventional teacher training, nor are they adept at observing and studying their students through their own teaching practice, so that they do not pay attention to analyzing experiences and understanding teaching patterns, even to the point of making mistakes without

even knowing it. While some young teachers are very zealous, they practice corporal punishment on students because they are poorly educated and incompetent, lack ways to deal with unruly students, and are impatient. Other teachers do not understand the importance of the people's teachers, feeling that teachers have no future, so are always looking to change their occupation, that the public is very biased against teachers, and that the leadership does not take timely care of them, so are full of discontent, unhappy with their work, disgruntled, and psychologically dissatisfied, which they take out on students. Yet others lack common legal concepts, do not feel that arbitrary corporal punishment and beating of students violates the law, and speak in platitudes, such as "no one will study unless they are beat with the bamboo whip," and "spare the rod and spoil the child;"

Mental pressure. Many schools now seek one-sidedly for "promotion rates," by using various methods of evaluation, giving out rewards and penalties according to positions on lists, and in some cases even stipulating that teachers with two consecutive years of poor class performance be fired. In order to get high positions on such lists, teachers compete to show off their special prowess. Some burn the midnight oil, cut corners, and work themselves into exhaustion, by keeping classes overtime, not resting on Sundays, and holding make-up classes during summer and winter vacations. Some grade schools have eight classes a day, lasting as long as 75 minutes each, which students cannot stand, but must not complain about or they will be punished;

Lax school regulation, which abets corporal punishment tendencies. Some school leaders not only turn a blind eye to corporal punishment, but even take the lead in it themselves. When some teachers beat students until they are disabled, leaders feel they have solved the problem with two sentences of criticism. When a rural grade school teacher in Henan beat one student to the point of death, the school simply fined him five yuan, and it was only public pressure that finally brought him to court, where he was sentenced to three years in jail, with the sentence suspended for four years. There is much public discontent about such things. While the law clearly provides that teachers who practice corporal punishment be criticized and subjected to administrative punishment based on the seriousness of their cases, with the legal responsibility for violations of the criminal law being investigated and affixed, very few of them are penalized in real life for using corporal punishment against students, which undoubtedly fosters the arrogance of certain teachers in applying corporal punishment to students. [passage omitted]

### **Ethnic Foundation of KMT Interparty Power Struggle**

93CM0084A Taipei TZULI WANPAO in Chinese  
16 Nov 92 p 3

[Article by Hsiao Hsin-huang (5618 2450 3552), professor in the Sociology Department of National Taiwan University and board chairman of the China Sociology Society: "Stop Political Strife on Pretext of Province Origin"]

[Excerpt] In February and March 1990, after half a year of high-level political strife within the Kuomintang (KMT), the China Research Society had a survey group make a survey on the question of province origin. In February of this year (1992), two years after the above-mentioned ugly political strife, we made a similar survey.

The actions of certain political figures in the KMT since the beginning of this month (November) are regarded by many sensitive political observers as the beginning of another round of political strife, and the province-origin factor is again given as the explanation for the political strife. In addition, many people predict that the storm center of this political strife will be, after the Second Legislative Council election, whether Hao K'ui [6787 2247] continues in office. The two forces in the storm are precisely the mainstream and non-mainstream forces formed after the political strife two years ago. But this time the non-mainstream forces even more prominently display the integration and appeal of the other-province origin of the main players in the political arena and the second generation of politicians.

The essence of this political strife is no different than the power struggle between individual politicians and the groups backing them, and this is nothing new. What is new is the use of whatever name as a pretext for "dispatching troops to fight." The pretext for the political strife two years ago was the "democratic procedure in the party." This was a case of the other-province politicians in the KMT wanting, as they looked at the situation before they would lose power and influence, with one counterattack to recapture the superior position in the KMT's power structure. The beginning of this political strife was the issue between the rational concepts of "one China, one Taiwan" and "one China," but in reality it was still a case of some other-province politicians wanting to wage a second struggle to seize power. The difference this time is that the issue of "China takes precedence" or "Taiwan takes precedence" was clearly put on the table, and also the factor of the Chinese communist threat was mixed in it.

Only looking at what was stated above, we see that the two political strifes really have a close relationship with the growth and decline of the power of provincial origin in the KMT. In a word, originally some other-province politicians held a monopoly position. Being gradually but clearly driven out of the power center, they, being unreconciled, launched a counterattack. The older generation and second generation of other-province politicians joined hands and hit out, more prominently showing that the political strife represented the crucial reason for the province-origin contradiction.

In the final analysis, is this kind of province-origin political strife just a transitional "internal disorder" caused by the shift in the center of gravity of power in the KMT, or does it have a social basis?

This is not to say that these two reasons have nothing to do with each other, but the political significance and social blow that the two cause to appear are not alike. Because a high-level power struggle often makes use of and manipulates a contradiction in society, making the contradiction its legitimized tool of political strife, and going on to muddle society's understanding. Therefore, there should be even more necessity to distinguish between "the internal power struggle caused by a small number of people" and "the ordinary social contradictions," and to diagnose them separately.

From the abovementioned results of the two surveys, we can get some inkling of the Taiwan populace's degree of serious feeling about the province-origin question. Generally speaking, on the surface the question of province origin can be divided into four parts: the domain of everyday life (e.g., friendship, neighborliness, and marriage); the domain of economic work and life (e.g., job seeking and promotion); and the domain of local politics as well as the domain of politics at the center. In everyday life and work, the degree of seriousness of the province-origin question can be regarded as the degree of its disruption and contradiction of ordinary social life, and is also an index of the the social basis of the province-origin question. In local and central politics, the degree of seriousness of the province-origin question obviously can be regarded as an index of the politicalization of the province-origin question. Especially, once the political strife between the power figures at the center's high level uses the province-origin contradiction as a reason, this contradiction can even more be called a tool of the political strife.

The data below arranges in parallel the proportions in the two surveys of the populace's expressing a degree of seriousness about the province-origin question in the domains (the answers of "serious" and "very serious" are combined in one total):

Table 1.

		August 1990	February 1992
province-origin question in everyday life	life foundation	2.1	8.3
province-origin question in employment and promotion		4.3	13.4
province-origin in local politics	political strife made into a tool	17.8	22.9
province-origin in politics at the center		24.2	28.8

1. The first adjustment was made half a year after the first political strife, and can be regarded as the public's opinion after the first political strife; the second adjustment was made half a year before the second political strife, and can be regarded as the popular will before the second political strife. One can clearly see from these two adjustments that, in Taiwan's society at present, the life foundation of the province-origin contradiction is very vague and weak, and the degree of seriousness of the province-origin question on it is far lower than the degree of seriousness of local and central political strife.

2. From the two surveys one can see that the degree of seriousness in the four domains of the province-origin question felt by the populace quite clearly increased. Also, in the ordinary individual's life domain, the rate of increase in the perplexity felt about province origin was especially alarming, separately increasing by two and three times. Admittedly, this is a social phenomena worth facing squarely, but even more worthy is an analysis of the cause behind it. To a considerable degree, in everyday life the degree of sensitivity about province origin and the increase in its perplexity were spread, provoked, and exaggerated by the KMT high-level internal political effect, and it caused a "stretching effect." In other words, this is a case of a different province-origin populace, when looking at and reacting to the topic of political strife, producing different subjective feelings. Because these different positive and negative feelings often most easily occur between friends, family members, kith and kin, and fellow workers, the perplexity and the uneasiness are imperceptibly increased. After such adjustments, we can more

clearly understand the fright and shame among the politicians in making use of province origin as a pretext for political strife.

3. It is quite obvious that the degree of seriousness of the political strife within the KMT, for over a year and a half, has made the populace more and more uneasy, and has even caused among the populace province-origin differences and contradictory false appearances. Furthermore, the reason for the second political strife touched on the issue of "China takes precedence" or "Taiwan takes precedence." This has been even more an unwarranted topic that vexes oneself. In present-day Taiwan, talk about so-called "China takes precedence" basically is empty talk devoid of real significance, and upholding the position of "China takes precedence" is no different than "emergency rule"; also, freely abandoning Taiwan to being a vassal state of the "People's Republic of China" turns it into a local political entity under the tactics of the united front. What is unfortunate is that those disappointed other-province political main players and the second generation of other-province politicians who are gradually verging on being dissatisfied with their position, power and influence, frequently use the slogans "one China" and "China takes precedence," slogans that easily confuse the understanding, as tools to cause another upsurge in society- and province-origin contradictions. Conversely, taking the realistic position of "one China, one Taiwan" or "one communist China, one Taiwan" and discrediting it as the immediate fear of "Taiwan independence" and "emergency independence," they often treat the Chinese communists with respect and take measures to seize power. Their ulterior motives can be exposed, and their evil-doing is extreme. How can the Taiwan populace not be on special guard against being divided and being reduced to tools used by politicians? [passage omitted]

#### Mainland Mania of KMT 'Princelings'

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[Table by T'an Shu-chen (6223 3219 3791): "Table of Mainland Mania by Second-Generation KMT Princelings"]

[Text]

Table 1. Mainland Mania by Second-Generation KMT Princelings

Name (Title)	Father (Title)	Objectives	Places Visited
Hu Ting-wu [5170 1353 0710] (president of Chunghua Securities)	Hu Hsin [5170 3512] (former trade representative to Singapore)	Sightseeing, and Incidentally Learning About New Markets	Hangzhou, Guangzhou, Beijing, Shanghai, and Xi'an
Wang Pu-t'ien [3769 2975 1131] (president of Huachen Corp, Ltd)	Wang Sheng [3769 2573] (former General War Department director, currently National Policy advisor)	Paying Respects to Ancestors and Visiting Relatives	
Lu Ta-wen [7120 1129 2429] (vice president of Chunghua Securities)	Lu Jun-k'ang [7120 3387 1660] (former minister of Finance)	Participation in S&T Exchange Forums (with Liu T'ai-ying [0491 3141 5391])	Beijing



Table 1. Mainland Mania by Second-Generation KMT Princelings (Continued)

Name (Title)	Father (Title)	Objectives	Places Visited
Wu Chun-min [0702 0193 3046] (vice president of Round-The-World Cement)	Wu San-lien [0702 0005 6647] (former publisher of TZULI WANPAO)	Visiting Cement Mining Areas	Shanghai, Xiamen, and Coastal Zones
Ku Chia-heng [6253 1367 1854] (vice president of the Industrial Research Academy)	Ku Cheng-kang [6253 2973 4854] (former chairman of the World-Asia Alliance, and KMT Central Committee Standing Member)	Studying S&T Exchange Across the Taiwan Straits	Beijing
Ku Chia-t'ai [6253 1367 3141] (president of Chit'i)	Ku Cheng-kang (same as above)	Studying S&T Exchange	
Ku Chia-hua [6253 1367 5478] (member of Control Commission)	Ku Cheng-kang (same as above)	Academic Visits at the Invitation of CASS	Beijing and the Northeast
Wang Hua-yen [3769 5478 3601] (chairman of the Board of T'ai-yang S&T)	Wang Chang-ch'ing [3769 4545 3237] (former executive Yuan Secretary General)	S&T Forums Across the Taiwan Straits (with Liu T'ai-ying's Group)	Beijing
Liu Kuo-zhao [0491 0948 2507] (member of the Legislative Committee)	Liu K'uo-ts'ai [0491 7059 2088] (former president of Legislative Yuan)	Observation and Study	
Chu Hsin [2612 0207] (vice president of T'aihsiang)	Chu Hui-sen [2612 0565 2773] (former minister of Education)	Observation and Study, and Participation in Liu T'ai-ying's Cross-Straits S&T Exchange Group	Chengdu, Xi'an, Sichuan, and Beijing
Huang Jen-chung [7806 0117 0022] (officer at Huanglung Investment)	Huang Shao-ku [7806 1421 6253] (KMT Central Committee Review Commission member)	Investment, Observation and Study, and Sightseeing	
Hao Lung-pin [6787 7893 2430] (professor at Taiwan U's Food Institute)	Hao Po-ts'un (premier and KMT Central Committee Standing member)	International Irradiation Forums, and Visiting Relatives	Beijing, and Yancheng, Jiangsu
Li Ch'ing-hua [2621 1987 5478] (deputy chairman of the Zhonghua Olympics Committee)	Li Huan [2621 3562] (former premier and KMT Central Committee Standing member)	Negotiations, and Participation in the Beijing Asian Olympics, Academic and Cultural Exchanges, and Salute to the Women's Soccer Team	Beijing, Nanjing, and Guangzhou
Wang Chih-hsiung [3769 1807 7160] (Legislative Committee member)	Wang Yu-yun [3769 3768 0061] (KMT Central Committee member)	Observation and Study, and Paying Respects to Ancestors	Beijing and Fuzhou
Ch'iu Hsi-ying [6726 2531 4481] (president of Haohua Engineering Corp)	Ch'iu Ch'uang-huan [6726 0482 3562] (Presidential Palace senior advisor)	Observation and Study	Beijing and Fuzhou
Ting Shou-chung [0002 1343 0022] (Legislative Committee member)	Wen Ha-hsiung [3306 0761 3574] (father-in-law) (KMT Central Committee member)	Observation and Study, and Cross-Straits Earthquake Project Forums	Beijing

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